

North Dakota  
University System

*Creating a University System  
for the 21st Century*

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# Annual Financial Report

**Fiscal Year Ended  
June 30, 2008**

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**NORTH DAKOTA  
UNIVERSITY SYSTEM**

**The Vital Link to a Brighter Future**

# **NORTH DAKOTA UNIVERSITY SYSTEM**

## **ANNUAL FINANCIAL REPORT**

**Fiscal Year Ended  
JUNE 30, 2008**

Prepared by the Director of Financial Reporting  
North Dakota University System Office

**NORTH DAKOTA  
UNIVERSITY SYSTEM**

**The Vital Link to a Brighter Future**

**NORTH DAKOTA UNIVERSITY SYSTEM**  
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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E BOULEVARD AVE - DEPT 117  
BISMARCK, ND 58505

**INDEPENDENT AUDITOR'S REPORT**

Honorable John Hoeven, Governor

Members of the Legislative Assembly

The State Board of Higher Education

We have audited the accompanying financial statements of the business-type activities of the North Dakota University System and its aggregate discretely presented component units as of and for the year ended June 30, 2008 which collectively comprise the North Dakota University System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University System's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units listed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the North Dakota University System are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and aggregate discretely presented component units of the State of North Dakota that is attributable to the transactions of the North Dakota University System. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2008, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the North Dakota University System as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2008, on our consideration of the North Dakota University System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota University System's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining statement of net assets, the combining statement of revenues, expenses and changes in net assets, the combining statement of cash flows, the statement of net assets - non-major component units, the statement of revenues, expenses, and changes in net assets - non-major component units and the schedule of bonds payable have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The financial information for revenue producing buildings has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



Robert R. Peterson  
State Auditor

December 11, 2008



# **NORTH DAKOTA UNIVERSITY SYSTEM**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **JUNE 30, 2008**

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The North Dakota University System's (the "System") discussion and analysis (MD&A) provides an overview of the System's financial activities and issues for the year ended June 30, 2008. It is designed to focus on the current year's activities, resulting changes and currently known facts to assist readers in understanding the accompanying financial statements.

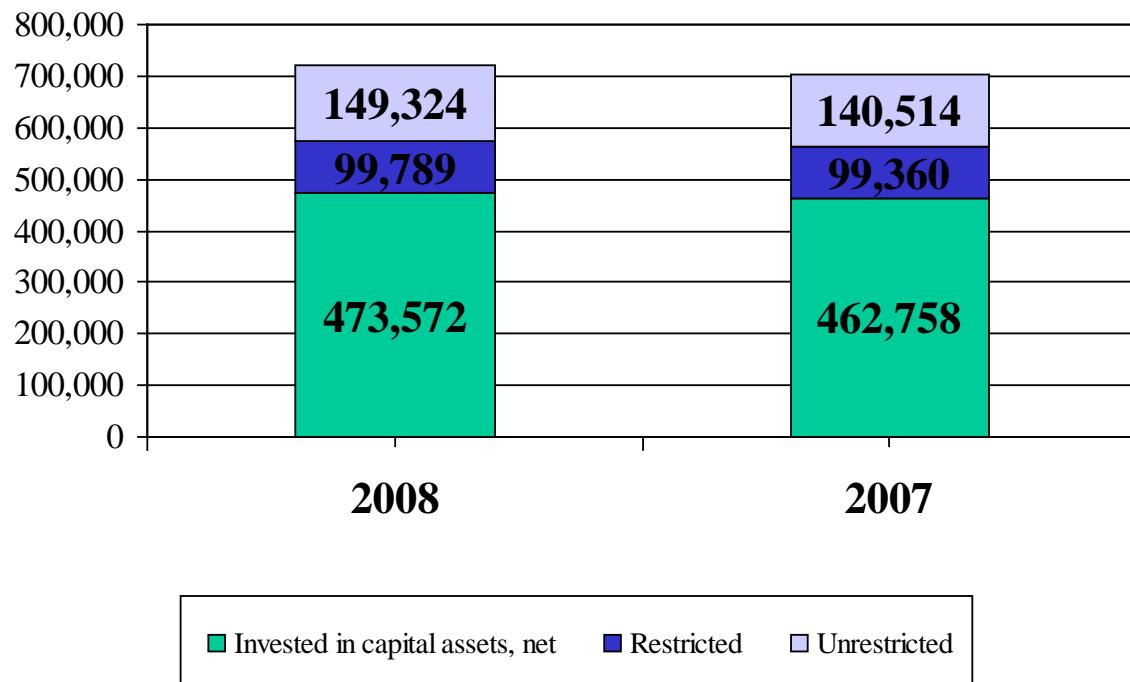
This discussion provides an overview of the financial position of the System for the year ended June 30, 2008 and should be read in conjunction with the accompanying financial statements and notes to the financial statements. The financial statements, notes, and this discussion and analysis are the responsibility of management.

Activities from the eleven public post-secondary campuses, the North Dakota University System Office, and the System's component units are included in the accompanying financial statements. For a detailed listing of these entities, refer to Note 1 of the accompanying financial statements.

### **FINANCIAL HIGHLIGHTS**

The System's overall financial standing continues to be sound with total assets of \$1.067 billion and total liabilities of \$344 million, resulting in a net assets total of \$723 million (an increase of \$20 million over the fiscal year). The System has done well in managing its financial resources and is better off as a result of the current year's activities. Total operating revenues increased 4 percent primarily as a result of increases in tuition, room and board rates. Total operating expenses increased 8 percent.

Total net assets were \$723 million at June 30, 2008 and \$702 million at June 30, 2007. The following graph illustrates the net asset breakdown for fiscal years ending June 30, 2008 and 2007:



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **JUNE 30, 2008**

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As a percent of total net assets, invested in capital assets (net of related debt) is the largest category of net assets due to the significant size of the System's physical infrastructure.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows provide information on the System as a whole and present a long-term view of the System's finances. Refer to Note 1 in the accompanying financial statements for activities included in the System's basic financial statements.

The statements assist in answering the question "Is the System as a whole financially better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the System as a whole and on its activities in a way that helps answer this question. The Statement of Cash Flows summarizes transactions affecting cash and cash equivalents during the fiscal year. It also provides information about the ability of the System to generate future cash flows necessary to meet its obligations and to evaluate its potential for additional financing.

Other non-financial factors, such as the condition of the campuses infrastructure, changes in legislative funding and changes in student enrollments need to be considered in order to assess the overall health of the System.

### **STATEMENT OF NET ASSETS**

The Statement of Net Assets presents the financial position of the System at one point in time and includes all assets and liabilities of the System. Net assets are the difference between assets and liabilities and may be thought of as one way to measure the System's financial health, or financial position. Over time, increases or decreases in the System's net assets are an indicator of whether its financial health is improving or deteriorating.

Assets and liabilities are classified as either current or noncurrent. Current assets are those resources that are convertible to cash within one year and are available to satisfy current liabilities. Current assets include cash and cash equivalents, short-term investments and accounts receivable. Noncurrent assets are mainly long-term investments and property and equipment. Current liabilities are those obligations of the System that are due within one year of the statement date. Noncurrent liabilities are comprised of long-term debt and other obligations of the System.

Net assets are reported in three categories: invested in capital assets, net of related debt; restricted net assets (both nonexpendable and expendable); and unrestricted net assets. Net assets invested in capital assets, net of related debt, consist of capital assets less the balance of the outstanding debt incurred during the construction or improvement of those assets. Restricted net assets are limited in use due to the constraints put in place by the donors or by law. Unrestricted net assets are those assets that do not qualify as either invested in capital assets, net of related debt, or restricted net assets but may have Board or other campus designated restrictions on use.

Unrestricted net assets encompass a wide array of core operational functions of the campuses. The balances shown are not only cash balances, but consist of investments, accounts receivable, inventories, and other non-liquid assets. Operating cycles create significant balance fluctuations during the fiscal year. Therefore, although some funds are not yet expended as of a particular point in time, they are generally designated for specific uses.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**

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The following table shows the Condensed Statement of Net Assets at June 30, 2008 and 2007:

**Condensed Statement of Net Assets**  
**June 30, 2008 and 2007 (in Thousands)**

	<b>2008</b>	<b>2007</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Current assets	\$ 257,814	\$ 223,532	\$ 34,282	15%
Capital assets, net	716,617	681,625	34,992	5%
Other noncurrent assets	93,001	132,195	(39,194)	-30%
Total assets	<b>\$ 1,067,432</b>	<b>\$ 1,037,352</b>	<b>\$ 30,080</b>	<b>3%</b>
Current liabilities	\$ 82,086	\$ 79,569	\$ 2,517	3%
Noncurrent liabilities	262,660	255,331	7,329	3%
Total liabilities	<b>\$ 344,746</b>	<b>\$ 334,900</b>	<b>\$ 9,846</b>	<b>3%</b>
Invested in capital assets, net	\$ 473,572	\$ 462,578	\$ 10,994	2%
Restricted	99,790	99,360	430	0%
Unrestricted	149,324	140,514	8,810	6%
Total net assets	<b>\$ 722,686</b>	<b>\$ 702,452</b>	<b>\$ 20,234</b>	<b>3%</b>
<b>Current Ratio</b>				
(current assets to current liabilities)	<b>3.1</b>	<b>2.8</b>		
<b>Primary Reserve Ratio</b>				
(expendable net assets to operating expenses)	<b>0.29</b>	<b>0.30</b>		

Total assets increased \$30.0 million during fiscal year 2008 to a total of \$1.067 billion. Cash and equivalents increased \$6.1 million and investments decreased \$19.4 million. Grants and contracts receivables decreased \$3.5 million. Net capital assets increased \$35.0 million for net additions to property and equipment less depreciation expense, as discussed in a later section of this MD&A.

Total liabilities increased \$9.8 million during fiscal year 2008 to a total of \$345 million. Accounts payable and accrued liabilities decreased \$1.5 million due primarily to timing of billings. Long-term liabilities increased \$8.3 million, as discussed in a later section of this MD&A.

The current ratio, calculated by dividing current assets by current liabilities, measures the System's ability to meet current obligations. The System's current ratio at June 30, 2008 was 3.1 to 1, which indicates the System's current assets are three times that of its current liabilities. A ratio of less than 1 to 1 would be cause for concern.

Total net assets increased \$20.2 million during fiscal year 2008 as a result of the year's activity.

The primary reserve ratio (calculated by dividing expendable and unrestricted net assets by operating expenses), measures the ability of the System to continue operating at current levels, within current restrictions, without future revenues. Proof of an adequate reserve ratio is often required to secure long-term financing. The System's primary reserve ratio at June 30, 2008 is .29 to 1, which indicates in an emergency situation, the System could continue its current operations for approximately 15 weeks.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**

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**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

The Statement of Revenues, Expenses, and Changes in Net Assets provides information about the System's activities during the year by reporting all the revenues and expenses for the year. In the Statement of Revenues, Expenses and Changes in Net Assets, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as the System's operating results.

Revenues and expenses are categorized as either operating or nonoperating. Operating revenues are revenues earned by the System in exchange for its goods and services, such as tuition and fees, grants and contracts, sales and services of educational departments and auxiliary enterprise revenues. Operating expenses are expenses incurred during the normal operations of the System and include, salaries and wages, operating expenses, depreciation, scholarships and fellowships and cost of sales and services. Nonoperating revenues and expense are those derived from non-exchange transactions. Examples include: insurance proceeds, investment income, gifts, state appropriations, interest on capital asset-related debt and gains or losses on capital assets. Even though state appropriations fund operating expenses, they are classified as nonoperating revenues as the Government Accounting Standards Board has ruled that they are not an exchange for goods or services. Other nonoperating items that are reported separately at the bottom of the statement include capital related transactions – appropriations, gifts, grants and transfers.

The following table shows a Condensed Statement of Revenues, Expenses and Changes in Net Assets for the fiscal years ended June 30, 2008 and 2007:

**Condensed Statement of Revenue, Expenses, and Changes in Net Assets**  
**June 30, 2008 and 2007 (in Thousands)**

	<b>2008</b>	<b>2007</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Operating revenues	\$ 552,954	\$ 530,103	\$ 22,851	4%
Operating expenses	822,212	761,183	61,029	8%
Operating loss	(269,258)	(231,080)	(38,178)	16.5%
Nonoperating revenues (expenses), net	273,777	253,948	19,829	8%
Income (loss) before capital grants, gifts, and transfers	4,519	22,868	(18,349)	-80%
Capital appropriations, grants and gifts	22,848	11,186	11,662	104%
Transfers	(7,133)	(5,985)	(1,148)	19%
Increase (decrease) in net assets	<b>\$ 20,234</b>	<b>\$ 28,069</b>	<b>\$ (7,835)</b>	<b>-28%</b>
<b>Tuition and Fees Funding Ratio</b>				
(tuition and fees to operating expenses)	<b>28%</b>	<b>29%</b>		
<b>Net Income Margin</b> (increase in net assets to total revenue)				
	<b>2.3%</b>	<b>3.5%</b>		

From June 30, 2007, operating expenses increased 8 percent while operating revenues increased 4 percent, resulting in a 16.5 percent increase in the operating loss for fiscal year 2008 as compared to fiscal year 2007. Net income margin, calculated by dividing increase in net assets by total revenue, is a measure of current year

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**

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financial status. The System's net income margin for fiscal year 2008 is 2.3 percent. A positive margin is good, as it signifies the System is not spending more than it's taking in.

**Revenues**

The following table shows revenues by source for the fiscal years ended June 30, 2008 and 2007:

	<b>June 30 (in Thousands)</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2008</b>	<b>2007</b>		
<b>Operating revenues</b>				
Student tuition and fees	\$ 226,177	\$ 218,669	\$ 7,508	3%
Grants and contracts	187,946	180,833	7,113	4%
Sales and services of education departments	54,429	44,360	10,069	23%
Auxiliary enterprises	83,099	80,758	2,341	3%
Other	1,304	5,484	(4,180)	-76%
<b>Total operating revenues</b>	<b>\$ 552,954</b>	<b>\$ 530,104</b>	<b>\$ 22,850</b>	<b>4%</b>
<b>Nonoperating revenues, capital gifts and grants</b>				
State Appropriations	\$ 244,200	\$ 225,920	\$ 18,280	8%
Federal appropriations	7,587	4,295	3,292	77%
Federal grants and contracts	348	100	248	248%
Gifts	22,760	21,583	1,177	5%
Investment income	7,788	14,533	(6,745)	-46%
Insurance proceeds	547	1,042	(495)	-48%
Tax revenues	2,342	2,322	20	1%
Gain on sale of capital assets	1,000	-	1,000	100%
Other nonoperating, net	574	-	574	100%
State appropriations-capital assets	10,253	3,871	6,382	165%
Capital grants & gifts	12,592	7,314	5,278	72%
<b>Total nonoperating revenues, capital gifts</b>	<b>\$ 309,991</b>	<b>\$ 280,980</b>	<b>\$ 29,011</b>	<b>10%</b>
<b>Total Revenues</b>	<b>\$ 862,945</b>	<b>\$ 811,084</b>	<b>\$ 51,861</b>	<b>6%</b>

Tuition and fee revenues increased 3 percent from fiscal year 2007. Grant and contract awards (included in operating revenues) increased 4 percent in fiscal year 2008. Within this total, federal grants and contracts revenue increased \$4.0 million and state grants and contracts revenue increased \$2.0 million and private grants and contracts increased \$1.1 million.

Revenues from auxiliary enterprises such as housing, bookstore and foodservice increased 3 percent from fiscal year 2007.

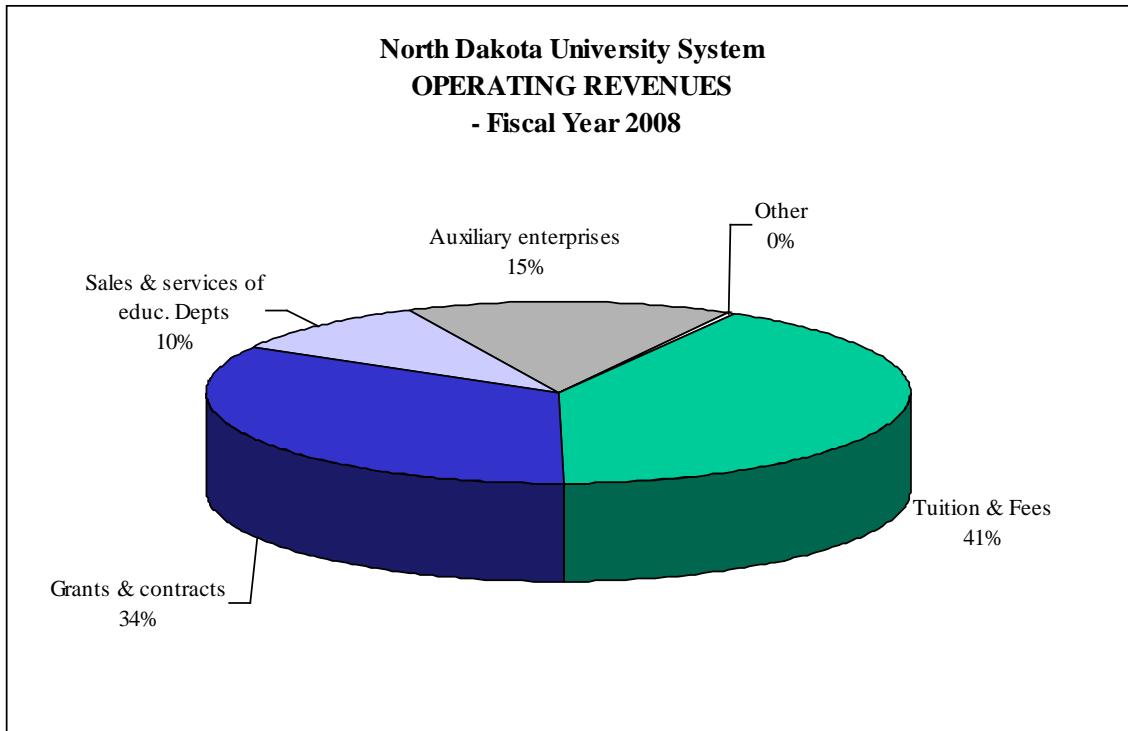
State appropriations, excluding capital assets, increased 8 percent over fiscal year 2007 due to an increase in the general fund appropriation for the 2007-09 biennium.

Investment income decreased 46 percent from fiscal year 2007, due to declining market conditions.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**

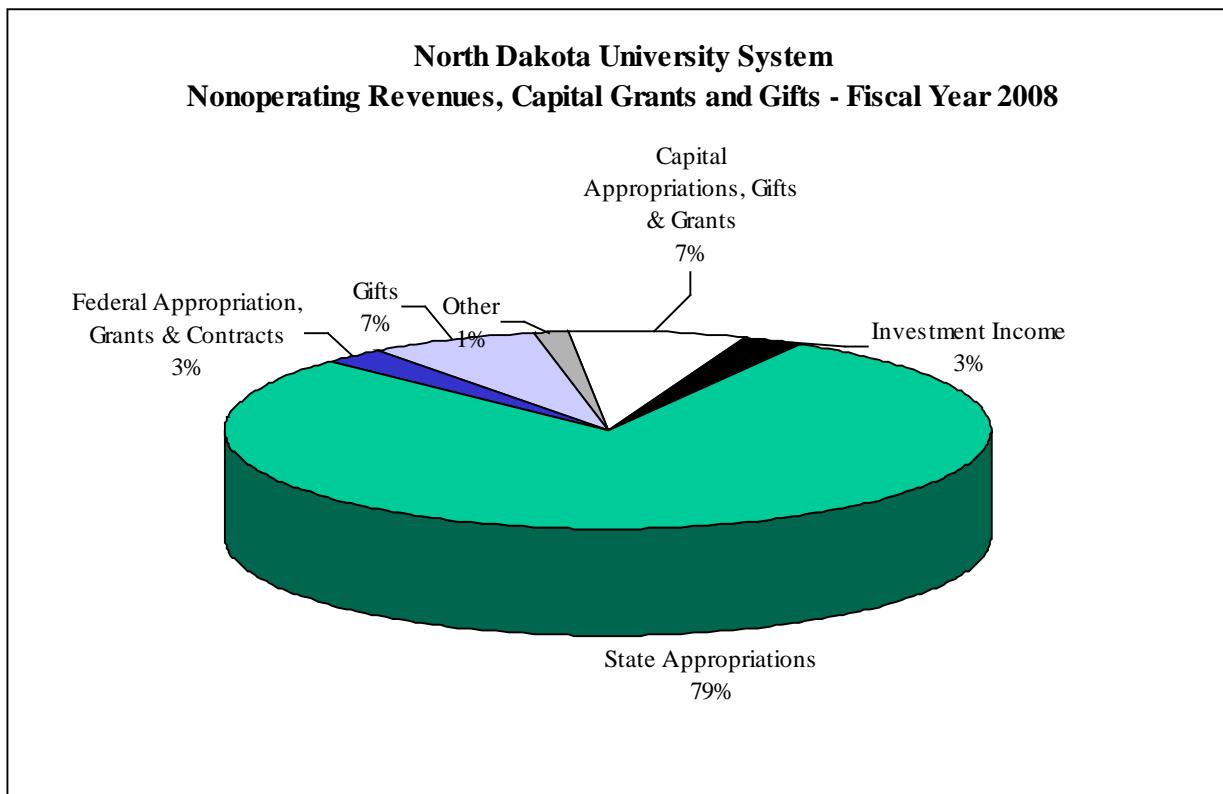
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The following graph depicts sources of operating revenues for fiscal year 2008:



In fiscal year 2008, tuition and fees accounted for 41 percent of operating revenues as compared to 42 percent in the previous fiscal year.

The following chart depicts sources of nonoperating revenues, capital grants and gifts for fiscal year 2008:



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**

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**Expenses**

The following table shows expenses by natural classification for the fiscal years ended June 30, 2008 and 2007:

	<b>June 30 (in Thousands)</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2008</b>	<b>2007</b>		
<b>Operating expenses</b>				
Salaries and wages	\$ 502,278	\$ 468,181	\$ 34,097	7%
Operating expenses	201,399	183,415	17,984	10%
Data processing	17,441	13,034	4,407	34%
Depreciation expense	41,552	39,353	2,199	6%
Scholarships and fellowships	26,393	23,737	2,656	11%
Cost of sales and services	33,149	33,463	(314)	-1%
Total operating expenses	<u>\$ 822,212</u>	<u>\$ 761,183</u>	<u>\$ 61,029</u>	<u>8%</u>
<b>Nonoperating expenses</b>				
Interest on capital asset related debt	\$ 12,879	\$ 12,258	\$ 621	5%
Loss on sale of capital assets	-	1,490	(1,490)	100%
General and special grant expenditures	487	748	(261)	-35%
Other nonoperating, net	-	1,350	(1,350)	100%
Total nonoperating expenses	<u>\$ 13,366</u>	<u>\$ 15,846</u>	<u>\$ (2,480)</u>	<u>-16%</u>
<b>Total expenses</b>	<b><u>\$ 835,578</u></b>	<b><u>\$ 777,029</u></b>	<b><u>\$ 58,549</u></b>	<b><u>8%</u></b>

Salaries and wages expense for the System increased by 7 percent in fiscal year 2008. Operating expenses, including travel, office expenses, supplies, utilities, repairs, rents and leases, fees, instructional supplies and other general expenses increased 10 percent in fiscal year 2008 which is significantly higher than the Higher Education Price Index which reported a 3.6% increase for fiscal year 2008.

Data processing increased 34 percent over fiscal year 2007 due to an increase in base and one time funding for the new Oracle database/license costs and the annual software and support costs of the data warehouse.

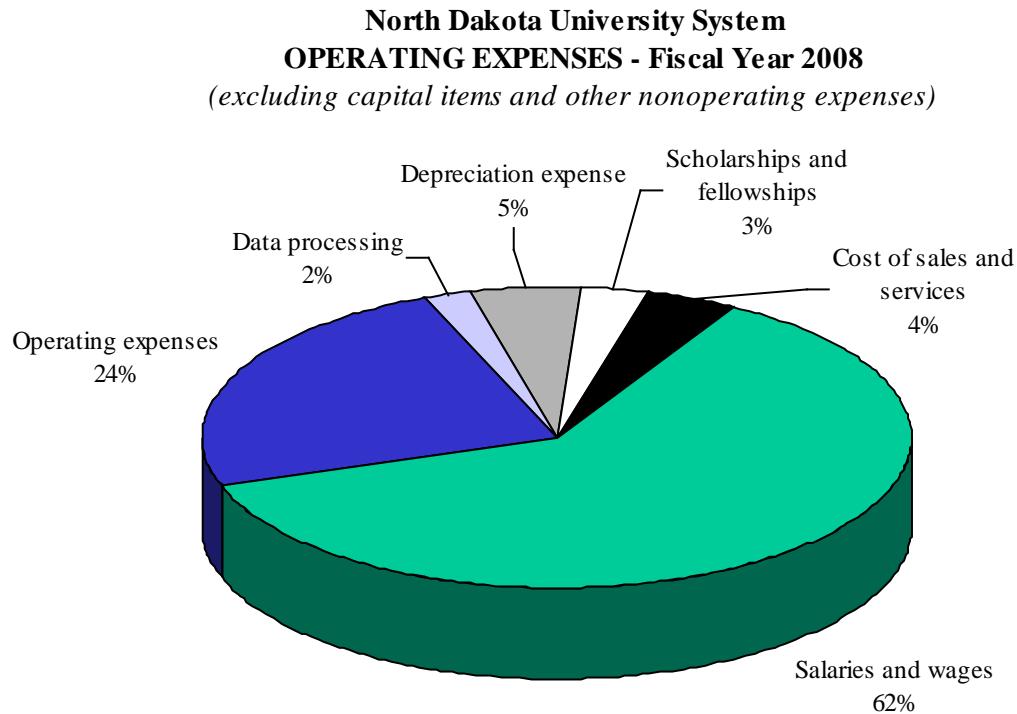
Scholarships and fellowships expense increased by 11 percent primarily due to increases in the dollar amount of total waivers as a result of increased tuition rates.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

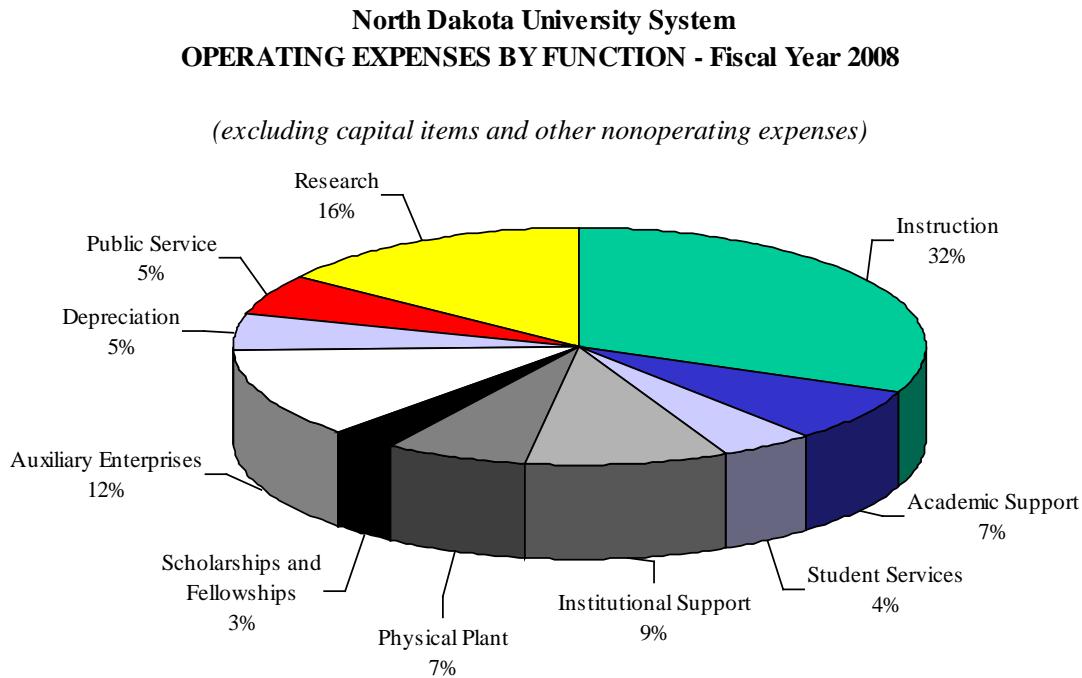
### JUNE 30, 2008

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The allocation of operating expenses among the natural classification categories has not changed significantly from fiscal year 2007. The following chart depicts the uses of operating funds according to natural classification for fiscal year 2008:



In addition to their natural classification, it is also informative to review operating expenses by function. The following chart illustrates operating expenses by function for fiscal year 2008:



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### JUNE 30, 2008

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The allocation of expenses to functional areas has not changed significantly from prior year.

*Instructional expenses*, at 32 percent, continue to represent the largest expenditure category. The instructional function includes all expenses related to instruction (e.g. classroom, distance ed and continuing education) and instructional support. *Academic support* includes libraries, academic deans, and other departments that directly support the academic unit of the campuses. *Student services* include all offices that provide a specific service to students, including career services, registration, admission and counseling. *Institutional support* includes staff that support the institution as a whole (e.g. business office, IT support and president's office). The *physical plant* function includes upkeep, maintenance and utilities for campus facilities. *Scholarships and fellowships* include aid provided to students. *Auxiliary enterprises* are the self-supporting activities of the campuses, such as bookstore, food service and housing. *Depreciation* represents the non-cash expense of capitalized assets over time. *Public service* includes expenses for activities established primarily to provide non-instructional services that are beneficial to individuals and groups external to the institution. All activities specifically organized to produce research, which is mostly federally funded, is included in the *research function*.

### STATEMENT OF CASH FLOWS

The Statement of Cash Flows shows inflows and outflows of cash without regard to accrual items. *Cash flows from operating activities* on the Statement of Cash Flows will always be different from the operating gain or loss on the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA) because of the inclusion of noncash items, such as depreciation expense, on the SRECNA. Also, the SRECNA is prepared on the accrual basis of accounting, meaning that it shows revenues earned and expenses incurred. The primary cash receipts from operating activities consist of tuition and fees, grants and contracts, and auxiliary income from housing, food service and bookstore operations. Cash outlays include payment of wages and benefits; operating expenses such as utilities, supplies, insurance and repairs; and, scholarships to students.

State appropriations are the primary source of *cash flows from noncapital financing activities*. Accounting standards require that we reflect this source of revenue as nonoperating, even though the campus budgets depend on this to continue the current level of operations. Other noncapital financing activity includes gifts received from endowment and charitable gift annuities.

*Cash flows from capital and related financing activities* include all plant funds and related long term debt activities (except depreciation and amortization), as well as capital gifts, grants and appropriations. Purchase and sale of investments and income earned on investments are included in *cash flows from investing activities*.

The Condensed Statement of Cash Flows for the fiscal years ended June 30, 2008 and 2007 is shown below:

#### Condensed Statement of Cash Flows June 30, 2008 and 2007 (in Thousands)

	<b>2008</b>	<b>2007</b>
Cash flows from operating activities	\$ (222,858)	\$ (177,452)
Cash flows from noncapital financing activities	274,267	261,772
Cash flows from capital and related financing activities	(66,904)	(94,696)
Cash flows from investing activities	21,624	(17,846)
Increase (decrease) in cash and cash equivalents during the year	<u><u>\$ 6,129</u></u>	<u><u>\$ (28,222)</u></u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### JUNE 30, 2008

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Consistent with accounting standards, cash flows from state appropriations (excluding capital assets) are included in noncapital financing activities, even though they provide funding for operating activities. Cash received from state appropriations, excluding capital assets, in fiscal year 2008 was \$235.2 million. If this figure is added to the cash flows from operating activities, the result is a positive cash flow of \$12.4 million.

## CAPITAL ASSET AND LONG-TERM LIABILITIES HIGHLIGHTS

### CAPITAL ASSETS

On June 30, 2008, the System had \$716.6 million invested in net capital assets, as reflected in the following table, which represents a net increase of \$35.0 million or 5.1 percent during the fiscal year.

**Capital Assets**  
**June 30, 2008 and 2007 (in Thousands)**

	<b>2008</b>	<b>2007</b>
Land	\$ 16,079	\$ 16,053
Land improvements/infrastructure	145,421	142,089
Buildings	799,863	727,392
Furniture, fixtures, and equipment	216,265	201,011
Intangibles	16,045	16,045
Library materials	101,551	97,410
Construction in progress	42,811	68,444
<b>Total</b>	<b>\$ 1,338,035</b>	<b>\$ 1,268,444</b>
 Total accumulated depreciation	 <b>(621,418)</b>	 <b>(586,819)</b>
 Capital assets, net	 <b>\$ 716,617</b>	 <b>\$ 681,625</b>

Total additions to depreciable capital assets in fiscal year 2008 were \$56.5 million. Construction in progress for other projects underway totaled \$42.8 million at June 30, 2008. Some of the major projects, and their estimated project costs, include:

- Student housing facility at BSC - \$5.7 million
- Badlands Activity Center at DSU - \$16.0 million
- Swain Hall addition at MiSU - \$7.0 million
- Football stadium and track renovation at NDSCS - \$1.7 million
- Memorial Union expansion at NDSU - \$22 million
- Wellness Center addition at NDSU - \$12 million
- Living Learning Center West at NDSU - \$12 million
- Parking facility at UND - \$19. million
- Student housing at UND - \$20 million

Outstanding commitments for these and other capital projects as of June 30, 2008 totaled \$26.6 million. More detailed information about the System's capital assets is presented in Note 5 and Note 14 to the financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### JUNE 30, 2008

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#### LONG-TERM LIABILITIES

On June 30, 2008, the System had \$275.7 million in bonds and other long-term obligations outstanding, compared to \$267.3 million on June 30, 2007.

#### Long-Term Liabilities June 30, 2008 and 2007 (in Thousands)

	<b>2008</b>	<b>2007</b>
Bonds Payable	\$ 194,957	\$ 190,625
Notes Payable	5,574	6,611
Capital Leases	49,839	46,081
Special Assessments	1,641	1,789
Compensated Absences	23,667	22,242
<b>Total Debt</b>	<b><u>275,678</u></b>	<b><u>267,348</u></b>
<b>Viability Ratio</b> (expendable net assets to L-T debt)	<b><u>0.9</u></b>	<b><u>0.9</u></b>

Long-term liabilities added in fiscal year 2008 totaled approximately \$25.5 million, including: two revenue bonds totaling \$12.0 million for new construction and renovation projects, \$10.61 million in new capital leases for purchase of capital assets, and \$2.8 million in other long-term obligations. Total debt retired in fiscal year 2008 was \$16.8 million, consisting primarily of bond payments of \$7.7 million and other regularly scheduled principal payments. At June 30, 2008, \$79.3 million of auxiliary enterprise revenues (95 percent) are pledged as security for outstanding revenue bonds.

The viability ratio, calculated by dividing expendable net assets by long-term debt, measures the System's ability to retire long-term debt using available current resources. The System's viability ratio at June 30, 2008 of .9 to 1 indicates the System needs to watch its future debt levels closely as a ratio of 1 to 1 or greater is preferred. More detailed information about the System's long-term liabilities is presented in Notes 7 through 11 to the financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### JUNE 30, 2008

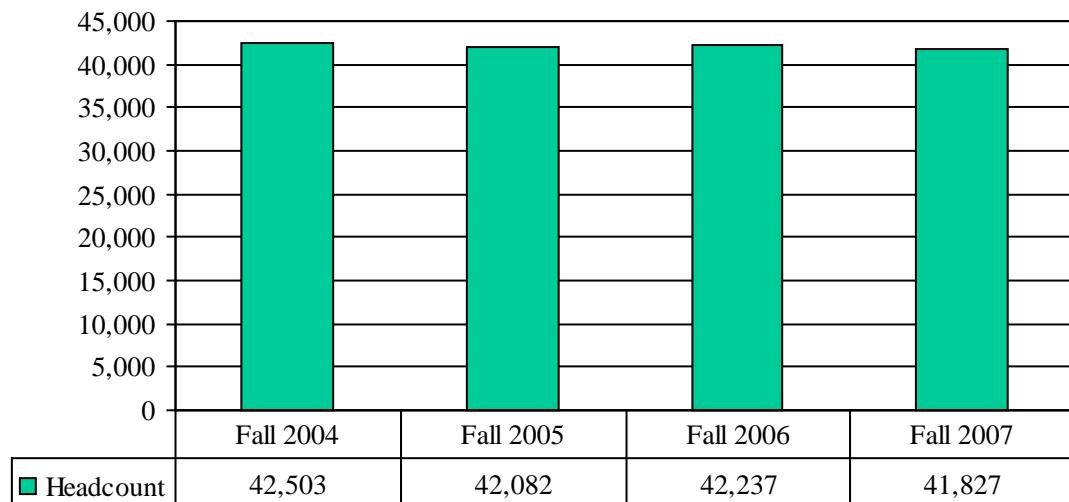
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#### OTHER HIGHLIGHTS

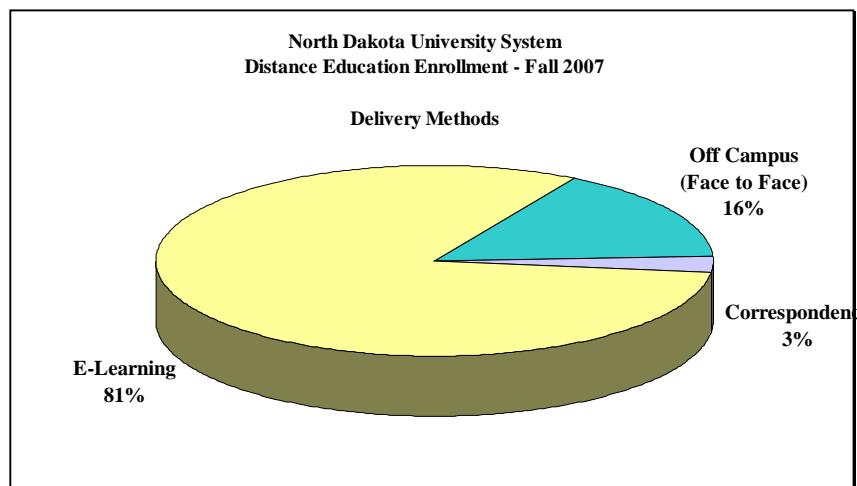
##### STUDENT ENROLLMENTS

Annual unduplicated degree credit headcount for Fall 2008 was 41,827, less than a 1 percent decrease from the previous fall enrollment. Degree credit headcount for the University System for the last four fall terms is as follows:

**North Dakota University System**  
**Degree Credit Headcount for the Fall Term**



Within degree credit, distance education (off-campus, correspondence and E-Learning) continues to be the fastest growing delivery method, experiencing a 15 percent increase over the last academic year, and accounting for about 36 percent of total degree credit headcount. E Learning (internet, IVN and other) now accounts for 81 percent of all distance education offerings, as opposed to 76 percent in fiscal year 2007.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **JUNE 30, 2008**

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#### **STATE FUNDING**

The 2007 Legislative Assembly approved a state general fund appropriation for all entities of the North Dakota University System (including major capital projects) of \$547.9 million for the 2007-09 biennium. This was an increase of \$101.5 million or 22.7 percent more than the 2005-07 adjusted appropriation. In total, \$65.1 million was included for base funding; \$14.9 million for one-time deferred maintenance and other specific projects and the remaining \$21.5 million one-time funding was for major capital projects. Excluding major capital projects, the total general fund increase over 2005-07 was \$80.0 million or 17.9 percent for all NDUS entities. The System's appropriation (excluding ag extension and research centers) as a percentage of the state's total 2007-09 general fund budget was 19.2 percent, compared to 19.5 percent in 2005-07.

An additional \$8.5 million was provided in one-time funding from the permanent oil tax trust fund for the following: \$2,773,800 for the Northern Tier Network project; \$4.1 million for streamline projects at NDSCS, VCSU and MiSU-BC; \$900,000 for a service oil rig program at WSC and \$700,000 (HB1395) for Tribal Community College grants.

#### **FINANCIAL CONTACT**

The System's financial statements are designed to present users with a general overview of the System's finances and to demonstrate accountability. If you have questions about the report or need additional financial information, contact the System's Director of Financial Reporting at 701-328-3401; State Capitol - 10<sup>th</sup> Floor, 600 E. Boulevard, Bismarck, ND 58505-0230.

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**STATEMENT OF NET ASSETS**

	<b>Primary Institution</b>	<b>Component Units</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 70,737,581	\$ 19,781,871
Investments	100,459,315	-
Accounts receivable, net	15,541,963	16,270,948
Receivable from component units	2,492,330	-
Receivable from primary institution	-	2,482,679
Due from State General Fund	14,666,507	-
Grants & contracts receivables, net	36,457,281	454,437
Inventories	7,413,270	140,095
Notes receivable, net	7,979,026	-
Other assets	2,066,231	1,996,030
Total current assets	<u>257,813,504</u>	<u>41,126,060</u>
Noncurrent assets		
Restricted cash and cash equivalents	5,321,884	17,318,185
Restricted investments	15,887,427	74,108,620
Endowment investments	12,769,721	265,768,138
Noncurrent receivable from primary institution	-	57,996,966
Notes receivable, net	33,933,838	-
Other long-term investments	20,968,021	26,582,808
Unamortized bond discount & cost of issuance	4,102,605	1,873,307
Other noncurrent assets	16,420	25,847,901
Capital assets, net	716,616,844	121,443,202
Total noncurrent assets	<u>809,616,760</u>	<u>590,939,127</u>
Total assets	<u>\$ 1,067,430,264</u>	<u>\$ 632,065,187</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 25,128,266	\$ 7,065,998
Payable to component units	413,226	-
Payable to primary institution	-	2,492,330
Accrued payroll	23,318,789	52,583
Deferred revenue	11,618,411	2,237,794
Deposits	5,737,728	648,894
Long-term liabilities--current portion		
Due to Component Units	2,075,726	-
Due to Others	13,794,243	5,089,689
Total current liabilities	<u>82,086,389</u>	<u>17,587,288</u>
Noncurrent liabilities		
Advances from Bank of ND	1,479,887	-
Liabilities under trust agreements	-	32,710,250
Other noncurrent liabilities	1,371,034	8,827,455
Long-term liabilities		
Due to Component Units	57,990,693	-
Due to Others	201,818,241	84,571,901
Total noncurrent liabilities	<u>262,659,855</u>	<u>126,109,606</u>
Total liabilities	<u>\$ 344,746,244</u>	<u>\$ 143,696,894</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 473,571,577	\$ 108,058,405
Restricted for:		
Nonependable:		
Scholarships and fellowships	14,287,950	-
Other (CU)	-	265,612,030
Expendable:		
Scholarships and fellowships	4,702,979	-
Research	12,489,914	-
Institutional	9,706,674	-
Loans	45,422,791	-
Capital projects	665,584	-
Debt service	12,444,896	-
Other	67,955	65,793,096
Unrestricted	<u>149,323,700</u>	<u>48,904,762</u>
Total net assets	<u>\$ 722,684,020</u>	<u>\$ 488,368,293</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	<b>Primary Institution</b>	<b>Component Units</b>
<b>OPERATING REVENUES</b>		
Student tuition and fees (net of scholarship allowances of \$39,521,212)	\$ 226,176,724	\$ 10,750,829
Local appropriations	-	-
Federal grants and contracts	154,211,796	-
State and local grants and contracts	9,947,573	-
Nongovernmental grants and contracts	23,786,785	-
Gifts & Contributions (CU)	-	30,382,184
Sales and services of educational departments	54,428,916	-
Auxiliary enterprises (net of scholarship allowances of \$3,082,717; \$79,280,836 of revenues are pledged as security for revenue bonds)	83,098,683	-
Event income (CU)	-	8,242,739
Rental income (CU)	-	2,995,041
Other	1,303,751	11,052,563
Total operating revenues	<u>\$ 552,954,228</u>	<u>\$ 63,423,356</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	\$ 502,277,704	\$ 10,575,220
Operating expenses	201,399,231	21,742,072
Data processing	17,441,142	-
Depreciation expense	41,552,087	9,001,836
Scholarships and fellowships	26,392,643	-
Cost of sales and services	33,149,232	-
Total operating expenses	<u>\$ 822,212,039</u>	<u>\$ 41,319,128</u>
Operating income (loss)	<u>\$ (269,257,811)</u>	<u>\$ 22,104,228</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 244,199,879	\$ -
Federal appropriations	7,587,352	-
Federal grants and contracts	347,707	-
Gifts	22,760,372	469,123
Investment income (net of investment expense of \$67,101)	7,787,707	(4,764,229)
Interest on capital asset-related debt	(12,879,778)	(1,807,349)
Gain (loss) on disposal of capital assets	999,747	478,334
Insurance proceeds	546,651	-
Tax revenues	2,341,682	-
General and special grant expenditures	(487,322)	-
Payments to or for the institution (CU)	-	(27,958,749)
Other nonoperating revenues (expenses)	573,480	1,736,808
Net nonoperating revenues (expenses)	<u>\$ 273,777,477</u>	<u>\$ (31,846,062)</u>
Income before capital grants, gifts, and transfers	<u>\$ 4,519,666</u>	<u>\$ (9,741,834)</u>
Federal appropriations-capital assets	\$ -	\$ -
State appropriations-capital assets	10,253,363	-
Transfers to Building Authority	(7,132,909)	-
Capital grants and gifts	12,591,952	-
Additions to permanent endowments (CU)	-	20,946,849
Increase in net assets	<u>\$ 20,232,072</u>	<u>\$ 11,205,015</u>
<b>NET ASSETS</b>		
Net assets--beginning of year, as restated (Refer to Note 1)	<u>702,451,948</u>	<u>477,163,278</u>
Net assets--end of year	<u>\$ 722,684,020</u>	<u>\$ 488,368,293</u>

**NORTH DAKOTA UNIVERSITY SYSTEM  
FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**STATEMENT OF CASH FLOWS**

	<b>Primary Institution</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student tuition and fees	\$ 224,029,922
Grants and contracts	188,550,668
Payments to suppliers	(246,804,231)
Payments to employees	(498,755,012)
Payments for scholarships and fellowships	(26,413,480)
Loans issued to students	(7,909,788)
Collection of loans to students	5,409,136
Auxiliary enterprise charges	82,873,039
Sales and service of educational departments	59,331,622
Cash received/(paid) on deposits	(636,704)
Other receipts (payments)	(2,532,716)
Net cash used by operating activities	<u>\$ (222,857,544)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State appropriations	\$ 235,213,675
Federal appropriations	7,587,352
Grants and gifts received for other than capital purposes	24,210,836
Grants given for other than capital purposes	(687,322)
Principal paid on advances from Bank of North Dakota	(35,372)
Agency fund cash increase/(decrease)	157,071
Tax revenues	2,345,974
Other nonoperating revenues (expenses)	5,474,520
Net cash flows provided by noncapital financing activities	<u>\$ 274,266,734</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from issuance of debt	\$ 12,000,000
Transfers to Building Authority	(5,630,157)
Capital appropriations	11,955,429
Capital grants and gifts received	6,152,307
Proceeds from sale of capital assets	1,149,401
Purchases of capital assets	(69,853,113)
Insurance proceeds	682,435
Principal paid on capital debt and lease	(16,332,662)
Deposits with capital debt payment trustees	5,560,802
Interest paid on capital debt and lease	(12,588,823)
Net cash used by capital and related financing activities	<u>\$ (66,904,381)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales and maturities of investments	\$ 64,490,108
Interest on investments	9,782,593
Purchase of investments	(52,648,612)
Net cash provided by investing activities	<u>\$ 21,624,089</u>
Net increase in cash	\$ 6,128,898
<b>CASH - BEGINNING OF YEAR</b>	<u>69,930,567</u>
<b>CASH - END OF YEAR</b>	<u>\$ 76,059,465</u>

**NORTH DAKOTA UNIVERSITY SYSTEM  
FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**STATEMENT OF CASH FLOWS - Continued**

	<b>Primary Institution</b>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (269,257,861)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
Depreciation expense	41,552,087
Change in assets and liabilities	
Accounts receivable adjusted for interest receivable	(2,145,656)
Grant & contract receivables	810,229
Inventories	(548,227)
Notes receivable	711,618
Other assets	(3,744,582)
Accounts payable and accrued liabilities adjusted for interest payable	4,214,227
Accrued payroll	2,097,360
Compensated absences	1,425,331
Deferred revenue	1,947,471
Deposits	80,459
Net cash provided (used) by operating activities	<u><u>\$ (222,857,544)</u></u>

**SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS**

Assets acquired through capital lease	\$ 15,593,844
Assets acquired through special assessment	806,161
Expenses paid by capital lease/special assessments	5,044,609
Gifts of capital assets	2,515,585
Net increase (decrease) in value of investments	<u><u>(2,337,940)</u></u>
Total non-cash transactions	<u><u>\$ 21,622,259</u></u>

**NORTH DAKOTA UNIVERSITY SYSTEM  
FINANCIAL STATEMENTS  
JUNE 30, 2008**

**STATEMENT OF NET ASSETS - MAJOR COMPONENT UNITS**

	BSC Foundation June 30, 2008	DSU Foundation June 30, 2008	MiSU Development Foundation June 30, 2008	NDSU Development Foundation June 30, 2008	NDSU Research & Technology Park June 30, 2008	UND Aerospace Foundation June 30, 2008
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 99,888	\$ 675,628	\$ 139,031	\$ 2,711,925	\$ 928,444	\$ 779,842
Accounts receivable, net	1,829,145	1,164,159	51,274	2,234,444	5,131	1,043,861
Receivable from primary institution	35,156	3,209	-	29,428	182,563	68,016
Grants & contracts receivables, net	98,871	-	-	-	-	-
Inventories	-	-	-	-	-	140,095
Other assets	110,123	99,631	2,033	598,531	97,004	458,198
Total current assets	2,173,183	1,942,627	192,338	5,574,328	1,213,142	2,490,012
Noncurrent assets						
Restricted cash and cash equivalents	2,665,217	102,667	-	12,627,934	540,699	-
Restricted investments	5,158,572	1,532,646	-	10,440,323	-	-
Endowment investments	7,695,458	6,732,698	11,328,822	95,684,140	-	-
Noncurrent receivable from primary institution	6,335,000	-	-	-	798,648	-
Other long-term investments	281,729	780,000	989,757	30,619,743	-	515,773
Unamortized bond discount & cost of issuance	-	-	-	-	1,873,307	-
Other noncurrent assets	1,038,830	2,878,911	334,632	1,448,966	55,724	-
Capital assets, net	12,012,148	951,602	-	6,169,478	29,801,539	10,978,471
Total noncurrent assets	35,186,954	12,978,524	12,653,211	156,990,584	33,069,917	11,494,244
Total assets	\$ 37,360,137	\$ 14,921,151	\$ 12,845,549	\$ 162,564,912	\$ 34,283,059	\$ 13,984,256
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable and accrued liabilities	\$ 1,189,663	\$ 814,852	\$ 14,111	\$ 2,536,616	\$ 339,141	\$ 498,484
Payable to primary institution	342,824	16,002	-	22,998	-	328,144
Accrued payroll	-	5,089	-	-	47,494	-
Deferred revenue	-	-	-	-	-	518,539
Deposits	-	-	-	648,544	-	-
Long-term liabilities--current portion						
Due to Others	823,054	16,183	-	796,450	1,650,845	901,149
Total current liabilities	2,355,541	852,126	14,111	4,004,608	2,037,480	2,246,316
Noncurrent liabilities						
Liabilities under trust agreements	2,034,725	690,923	-	7,381,134	-	-
Other noncurrent liabilities	671,894	-	141,488	-	1,003,700	-
Long-term liabilities	-	-	-	-	-	-
Due to Others	8,098,817	593,916	-	26,334,547	25,385,177	4,941,464
Total noncurrent liabilities	10,805,436	1,284,839	141,488	33,715,681	26,388,877	4,941,464
Total liabilities	\$ 13,160,977	\$ 2,136,965	\$ 155,599	\$ 37,720,289	\$ 28,426,357	\$ 7,187,780
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	\$ 8,090,277	\$ 341,502	\$ 989,757	\$ 6,169,478	\$ 2,765,916	\$ 5,135,858
Restricted for:						
Nonexpendable:						
Other (CU)	10,892,082	8,647,095	10,260,779	87,678,109	-	-
Expendable:						
Other	2,757,390	3,978,837	622	20,497,354	671,300	-
Unrestricted	2,459,411	(183,248)	1,438,792	10,499,682	2,419,486	1,660,618
Total net assets	\$ 24,199,160	\$ 12,784,186	\$ 12,689,950	\$ 124,844,623	\$ 5,856,702	\$ 6,796,476

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**STATEMENT OF NET ASSETS - MAJOR COMPONENT UNITS - Continued**

		RE Arena, Inc							
		UND Arena							
		Services, Inc.							
		UND Sports							
		UND Alumni Association & UND Foundation	Facilities, Inc.	Arena Holdings Charitable LLC & Affiliates	Elimination (Note 15)	Total Major Component Units	Non-major Component Units	Total Component Units	
		June 30, 2008		May 31, 2007					
<b>ASSETS</b>									
Current assets									
Cash and cash equivalents		\$ 4,819,671	\$ 3,729,427	\$ -	\$ 13,883,856	\$ 5,898,015	\$ 19,781,871		
Accounts receivable, net		8,586,281	1,009,797	-	15,924,092	346,856	16,270,948		
Receivable from primary institution		335,000	267,417	1,551,890	2,472,679	10,000	2,482,679		
Grants & contracts receivables, net		-	355,566	-	454,437	-	454,437		
Inventories		-	-	-	140,095	-	140,095		
Other assets		389,063	136,108	-	1,890,691	105,339	1,996,030		
Total current assets		14,130,015	5,498,315	1,551,890	34,765,850	6,360,210	41,126,060		
Noncurrent assets									
Restricted cash and cash equivalents		-	-	-	15,936,517	1,381,668	17,318,185		
Restricted investments		52,008,056	-	-	69,139,597	4,969,023	74,108,620		
Endowment investments		118,754,762	-	-	240,195,880	25,572,258	265,768,138		
Noncurrent receivable from primary institution		10,755,000	-	40,108,318	57,996,966	-	57,996,966		
Other long-term investments		5,741,925	-	(12,346,119)	26,582,808	-	26,582,808		
Unamortized bond discount & cost of issuance		-	-	-	1,873,307	-	1,873,307		
Other noncurrent assets		19,858,234	-	-	25,615,297	232,604	25,847,901		
Capital assets, net		2,675,607	87,432,247	(29,129,436)	120,891,656	551,546	121,443,202		
Total noncurrent assets		209,793,584	87,432,247	(1,367,237)	558,232,028	32,707,099	590,939,127		
Total assets		\$ 223,923,599	\$ 92,930,562	\$ 184,653	\$ 592,997,878	\$ 39,067,309	\$ 632,065,187		
<b>LIABILITIES</b>									
Current liabilities									
Accounts payable and accrued liabilities		\$ 921,975	\$ 676,951	\$ -	6,991,793	\$ 74,205	\$ 7,065,998		
Payable to primary institution		-	342,066	-	1,052,034	1,440,296	2,492,330		
Accrued payroll		-	-	-	52,583	-	52,583		
Deferred revenue		-	1,719,255	-	2,237,794	-	2,237,794		
Deposits		-	-	-	648,544	350	648,894		
Long-term liabilities--current portion									
Due to Others		626,809	191,912	-	5,006,402	83,287	5,089,689		
Total current liabilities		1,548,784	2,930,184	-	15,989,150	1,598,138	17,587,288		
Noncurrent liabilities									
Liabilities under trust agreements		22,603,468	-	-	32,710,250		32,710,250		
Other noncurrent liabilities		6,951,303	-	-	8,768,385	59,070	8,827,455		
Long-term liabilities									
Due to Others		13,066,891	6,039,274	-	84,460,086	111,815	84,571,901		
Total noncurrent liabilities		42,621,662	6,039,274	-	125,938,721	170,885	126,109,606		
Total liabilities		\$ 44,170,446	\$ 8,969,458	\$ -	\$ 141,927,871	\$ 1,769,023	\$ 143,696,894		
<b>NET ASSETS</b>									
Invested in capital assets, net of related debt		\$ 2,675,607	\$ 81,201,061	\$ 184,653	107,554,109	\$ 504,296	\$ 108,058,405		
Restricted for:									
Nonexpendable:									
Other (CU)		124,322,353	-	-	241,800,418	23,811,612	265,612,030		
Expendable:									
Other		29,276,776	1,578,578	-	58,760,857	7,032,239	65,793,096		
Unrestricted		23,478,417	1,181,465	-	42,954,623	5,950,139	48,904,762		
Total net assets		\$ 179,753,153	\$ 83,961,104	\$ 184,653	\$ 451,070,007	\$ 37,298,286	\$ 488,368,293		

**NORTH DAKOTA UNIVERSITY SYSTEM  
FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MAJOR COMPONENT UNITS**

	BSC Foundation June 30, 2008	DSU Foundation June 30, 2008	MiSU Development Foundation June 30, 2008	NDSU Development Foundation June 30, 2008	NDSU Research & Technology Park June 30, 2008	UND Aerospace Foundation June 30, 2008
<b>OPERATING REVENUES</b>						
Student tuition and fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,750,829
Gifts & Contributions (CU)	1,311,558	4,743,500	113,426	7,616,197	337,763	-
Event income (CU)	-	-	-	-	-	876,020
Rental income (CU)	-	329,306	-	-	2,475,728	-
Other	566,260	-	15,000	-	222,001	-
Total operating revenues	\$ 1,877,818	\$ 5,072,806	\$ 128,426	\$ 7,616,197	\$ 3,035,492	\$ 11,626,849
<b>OPERATING EXPENSES</b>						
Salaries and wages	\$ 88,033	\$ 121,694	\$ -	\$ 1,647,761	\$ 270,159	\$ 2,828,569
Operating expenses	750,828	390,610	97,592	4,033,629	703,192	7,118,965
Depreciation expense	25,191	43,853	-	415,021	985,105	761,867
Total operating expenses	\$ 864,052	\$ 556,157	\$ 97,592	\$ 6,096,411	\$ 1,958,456	\$ 10,709,401
Operating income (loss)	\$ 1,013,766	\$ 4,516,649	\$ 30,834	\$ 1,519,786	\$ 1,077,036	\$ 917,448
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Gifts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 469,123
Investment income	(874,278)	(297,599)	45,194	750,888	76,204	(157,532)
Interest on capital asset-related debt	-	(27,749)	-	-	(1,146,683)	(320,625)
Gain (loss) on disposal of capital assets	-	-	-	-	-	478,334
Payments to or for the institution (CU)	(974,444)	(1,437,520)	(571,867)	(7,234,724)	-	-
Other nonoperating revenues (expenses)	127,922	(164,899)	-	965,196	(91,080)	-
Net nonoperating revenues (expenses)	\$ (1,720,800)	\$ (1,927,767)	\$ (526,673)	\$ (5,518,640)	\$ (1,161,559)	\$ 469,300
Income (loss) before capital grants, gifts, and transfers	\$ (707,034)	\$ 2,588,882	\$ (495,839)	\$ (3,998,854)	\$ (84,523)	\$ 1,386,748
Additions to permanent endowments	792,905	300,530	488,795	5,069,493	-	-
Increase in net assets	\$ 85,871	\$ 2,889,412	\$ (7,044)	\$ 1,070,639	\$ (84,523)	\$ 1,386,748
<b>NET ASSETS</b>						
Net assets--beginning of year, as restated (Refer to Note 1)	24,113,289	9,894,774	12,696,994	123,773,984	5,941,225	5,409,728
Net assets--end of year	\$ 24,199,160	\$ 12,784,186	\$ 12,689,950	\$ 124,844,623	\$ 5,856,702	\$ 6,796,476

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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	RE Arena, Inc	UND Arena	Services, Inc.	UND Sports	UND Alumni	Facilities, Inc.	Arena Holdings	Charitable LLC	Total	Major	Non-major	Total
	UND	Foundation	Arena Holdings	Charitable LLC	Elimination	Component	Total					
	June 30, 2008	May 31, 2008			(Note 15)	Units						
<b>OPERATING REVENUES</b>												
Student tuition and fees	\$ -	\$ -	\$ -	\$ -	\$ 10,750,829	\$ -	\$ -	\$ 10,750,829	\$ -	\$ -	\$ -	\$ 10,750,829
Gifts & Contributions (CU)	13,824,841	-	-	-	27,947,285	2,434,899	-	30,382,184	-	-	-	-
Event income (CU)	-	6,696,648	-	-	7,572,668	670,071	-	8,242,739	-	-	-	-
Rental income (CU)	-	118,986	-	-	2,924,020	71,021	-	2,995,041	-	-	-	-
Other	3,214,069	1,096,233	-	-	5,113,563	5,939,000	-	11,052,563	-	-	-	-
Total operating revenues	<u>\$ 17,038,910</u>	<u>\$ 7,911,867</u>	<u>\$ -</u>	<u>\$ 54,308,365</u>	<u>\$ 9,114,991</u>	<u>\$ -</u>	<u>\$ 63,423,356</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>												
Salaries and wages	\$ 2,724,082	\$ 2,046,710	\$ -	\$ -	\$ 9,727,008	\$ 848,212	\$ -	\$ 10,575,220	-	-	-	-
Operating expenses	974,912	3,207,849	-	-	17,277,577	4,464,495	-	21,742,072	-	-	-	-
Depreciation expense	133,193	5,683,124	(66,667)	-	7,980,687	1,021,149	-	9,001,836	-	-	-	-
Total operating expenses	<u>\$ 3,832,187</u>	<u>\$ 10,937,683</u>	<u>\$ (66,667)</u>	<u>\$ 34,985,272</u>	<u>\$ 6,333,856</u>	<u>\$ -</u>	<u>\$ 41,319,128</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Operating Income	<u>\$ 13,206,723</u>	<u>\$ (3,025,816)</u>	<u>\$ 66,667</u>	<u>\$ 19,323,093</u>	<u>\$ 2,781,135</u>	<u>\$ -</u>	<u>\$ 22,104,228</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>												
Gifts	\$ -	\$ -	\$ -	\$ -	\$ 469,123	\$ -	\$ -	\$ 469,123	-	-	-	-
Investment income	(3,270,316)	-	-	-	(3,727,439)	(1,036,790)	-	(4,764,229)	-	-	-	-
Interest on capital asset-related debt	-	(312,292)	-	-	(1,807,349)	-	-	(1,807,349)	-	-	-	-
Gain (loss) on disposal of capital assets	-	-	-	-	478,334	-	-	478,334	-	-	-	-
Payments to or for the institution (CU)	(12,808,386)	(306,510)	-	-	(23,333,451)	(4,625,298)	-	(27,958,749)	-	-	-	-
Other nonoperating revenues/expenses	1,263,094	-	-	-	2,100,233	(363,425)	-	1,736,808	-	-	-	-
Net nonoperating revenues (expenses)	<u>\$ (14,815,608)</u>	<u>\$ (618,802)</u>	<u>\$ -</u>	<u>\$ (25,820,549)</u>	<u>\$ (6,025,513)</u>	<u>\$ -</u>	<u>\$ (31,846,062)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income (loss) before capital grants, gifts, and transfers	<u>\$ (1,608,885)</u>	<u>\$ (3,644,618)</u>	<u>\$ 66,667</u>	<u>\$ (6,497,456)</u>	<u>\$ (3,244,378)</u>	<u>\$ -</u>	<u>\$ (9,741,834)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Additions to permanent endowments	12,847,645	-	-	-	19,499,368	1,447,481	-	20,946,849	-	-	-	-
Increase (decrease) in net assets	<u>\$ 11,238,760</u>	<u>\$ (3,644,618)</u>	<u>\$ 66,667</u>	<u>\$ 13,001,912</u>	<u>\$ (1,796,897)</u>	<u>\$ -</u>	<u>\$ 11,205,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>NET ASSETS</b>												
Net assets--beginning of year, as restated (Refer to Note 1)	168,514,393	87,605,722	117,986	438,068,095	39,095,183	-	-	477,163,278	-	-	-	-
Net assets--end of year	<u>\$ 179,753,153</u>	<u>\$ 83,961,104</u>	<u>\$ 184,653</u>	<u>\$ 451,070,007</u>	<u>\$ 37,298,286</u>	<u>\$ -</u>	<u>\$ 488,368,293</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# **NORTH DAKOTA UNIVERSITY SYSTEM**

## **NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2008**

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies, as summarized below, and the financial statements for the North Dakota University System are in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) which is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles.

#### **REPORTING ENTITY**

The North Dakota State Board of Higher Education (Board) is the governing body for North Dakota's eleven publicly supported colleges and universities. In addition to these eleven institutions, the Board also oversees the Agricultural Research Centers, Agronomy Seed Farm, North Dakota Cooperative Extension Service, Northern Crops Institute, School of Medicine and Health Sciences, the State Forest Service, and the Upper Great Plains Transportation Institute. The Board was established in 1939 when the voters of North Dakota approved an initiated measure to add Article VIII to the State Constitution. The Board consists of eight voting members. The Governor, with the advice and consent of the Senate, appoints seven of the eight voting members. The eighth member is a full-time resident student appointed by the Governor. A ninth member is a faculty member (non-voting) selected by the statewide Council of College Faculties. The Board is an entity of the executive branch of the government of the State of North Dakota. The colleges and universities governed by the Board are collectively known and referred to as the North Dakota University System hereafter referred to as the University System. The Board appoints a Commissioner of Higher Education (Chancellor) to serve as the chief executive officer of the Board and of the University System. The Chancellor and the Chancellor's staff must have their principal office in the State Capitol per the North Dakota Constitution. This office is referred to as the University System Office. The North Dakota Legislature appropriates funds it deems necessary and as required by law for those agencies and institutions authorized to exist by the constitution and statutes. Separate general ledgers are maintained for the University System office and each institution on the PeopleSoft Finance Module. The financial statements presented here are also included in the comprehensive annual financial report of the State of North Dakota.

The University System includes the following entities that were created by the North Dakota Constitution and/or North Dakota Century Code (NDCC). As stated above these entities are under the control and administration of the State Board of Higher Education. Each entity receives a separate appropriation from the North Dakota Legislature as provided by North Dakota Constitutional Article VIII, S 6(6)(e) and state statute.

#### **North Dakota University System Entities (Primary Institution)**

North Dakota University System Office (NDUSO)

Bismarck State College (BSC)

Dickinson State University (DSU)

Lake Region State College (LRSC)

Mayville State University (MaSU)

Minot State University (MiSU)

Minot State University – Bottineau Campus (MiSU-B)

North Dakota State College of Science (NDSCS)

North Dakota State University (NDSU)

Agricultural Experiment Stations:

North Dakota State University Main Research Center

## **NOTES TO THE FINANCIAL STATEMENTS**

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Dickinson Research Extension Center  
Central Grasslands Research Extension Center  
Hettinger Research Extension Center  
Langdon Research Extension Center  
North Central Research Extension Center  
Williston Research Extension Center  
Carrington Research Extension Center  
Agronomy Seed Farm  
Northern Crops Institute  
Upper Great Plains Transportation Institute  
North Dakota State University Cooperative Extension Service  
North Dakota Forest Service  
University of North Dakota (UND)  
School of Medicine and Health Sciences  
Valley City State University (VCSU)  
Williston State College (WSC)

### **Component Units**

The process of evaluating potential component units involved the application of criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. In accordance with GASB Statement No. 14, a financial reporting entity consists of the primary institution, organizations for which the primary institution is financially accountable and other organizations for which the nature and significance of their relationship with the primary institution are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The definition of the reporting entity is based primarily on the criteria of financial accountability. The primary institution is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary institution. Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, modifies and clarifies previously existing criteria of determining whether an organization should be reported as a component unit and how that component unit should be reported in the financial statements. The nature and significance of the organizations relationship and the extent of financial integration with the primary institution are now considered when determining potential component units.

As required by generally accepted accounting principles, the accompanying financial statements present the University System (the primary institution) and its component units. The component units are included in the University System's reporting entity because of the significance of their operational or financial relationships with the University System.

### **Blended Component Units**

A component unit whose governing body is substantively the same as the governing body of the primary institution, a financial benefit/burden relationship exists and the entity provides services entirely or almost entirely to the primary institution or otherwise exclusively or almost exclusively benefits the primary institution even though it does not provide services directly to it, is included in the primary institutions financial statements using the blending method.

The **Mystic Athletic Club** (BSC) is considered a blended component unit. Although it is a legally separate entity, the Mystic Athletic Club is reported as if it were part of the primary institution because the board is comprised of BSC employees and its sole purpose is to provide support for the athletic

## NOTES TO THE FINANCIAL STATEMENTS

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programs at BSC. Complete financial statements may be obtained at the entity's administrative office at Bismarck State College, Athletic Department, 1601 Edwards Avenue, Bismarck, ND 58501.

**North Dakota University System Foundation** is considered a blended component unit. Although it is a legally separate, non-profit 501(c)(3) organization, NDUS Foundation is reported as if it were part of the primary institution because its sole purpose is to support the NDUS. Some members of the State Board of Higher Education serve on the Board of Trustees for the foundation. Complete financial statements may be obtained at the entity's administrative office at 600 E. Boulevard Ave. Dept 215, Bismarck, ND 58505.

### Discretely Presented Component Units

The following component units are legally separate entities; however, a fiscal dependency relationship exists whereby the entity does not have the ability to complete certain essential fiscal events without substantive approval from the primary institution or due to the nature and significance of the relationship to the University System, exclusion would render the financial statements incomplete or misleading. Although the primary institution does not control the timing or amount of receipts from the component units, the majority of resources, or income thereon, that the entities hold and invest are restricted by the donors to the activities of the primary institution or its constituents. Therefore, these entities are discretely presented in the accompanying financial statements using Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the System's financial report for these differences. Component units that are significant relative to the other component units and to the primary institution are considered "major" component units and are displayed in separate columns in the component unit section of the accompanying financial statements and are included in Note 15 under Major Component Units. Component units that are not significant relative to the other component units and to the primary institution are considered "non-major" component units and are displayed in a combined column in the component unit section of the accompanying financial statements.

### **Major Component Units**

**The Bismarck State College Foundation** is a legally separate, tax-exempt organization providing support and recognition to BSC through a variety of programs. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college. The foundation is managed by a 75-member board of directors comprised of leading citizens, both alumni and friends of the college as well as seven ex-officio members that are officers/employees of BSC. Complete financial statements for Bismarck State College Foundation may be obtained at the entity's administrative offices at 1255 Schafer Street, PO Box 5587, Bismarck, ND 58506-5587.

**Dickinson State University Foundation, Inc.**, was organized in 1952 as a non-profit corporation to provide an avenue through which alumni and friends of the University may contribute financially to the University. Gifts, grants, and bequests to the foundation benefit present and future students by providing scholarship assistance and the funding of special projects. The foundation is managed by a 26-member board of directors comprised of leading citizens, both alumni and friends of DSU as well as two ex-officio members that are officers/employees of DSU. Complete financial statements for the Foundation may be obtained at Dickinson State University, Dickinson, ND 58601.

**Minot State University Development Foundation** was incorporated in 1978 exclusively for the benefit of MiSU. Its purpose is to establish, promote and stimulate voluntary financial support for the benefit of

## **NOTES TO THE FINANCIAL STATEMENTS**

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the university, especially in the building of endowment and in addressing the long-term priorities of the university. A board of directors comprising 13 voting members manages the foundation. Two are ex-officio appointments from the Board of Regents and the Alumni Association, and three are ex-officio members who are employees of MiSU. Complete financial statements for Minot State University Development Foundation may be obtained at the entity's administrative office at 500 University Avenue West, Minot, ND 58707.

**North Dakota State University Development Foundation** is an incorporated, nonprofit organization developed solely for the benefit of NDSU. The foundation is approved by the IRS as a charitable, tax-exempt organization and designated by the University as the repository for private giving to the University. Its purpose is to raise, manage, and disburse contributions for the benefit of NDSU. The foundation is managed by a board of trustees comprised of 60 elected alumni and friends of the university as well as four ex-officio members – the president of NDSU, the president and vice president of the Alumni Association and the executive director of the Development Foundation and Alumni Foundation. Complete financial statements for North Dakota State University Development Foundation may be obtained at the entity's administrative office at 1241 N. University Drive, Fargo, ND 58102, or PO Box 5144, Fargo, ND 58105.

**NDSU Research & Technology Park, Inc.**, is a nonprofit organization established in 1999 to promote an economic environment dedicated to applied research and technology discovery for the benefit of NDSU, its faculty and staff and students and the citizens of North Dakota. The majority of the Park's board of directors (6 of 9) works in private industry. Vacancies are filled by a majority vote of the board. Officers of NDSU fill the remaining three positions. The President of NDSU serves as president of the board of directors and has control over final building plans for any new building at the Park. Complete financial statements for NDSU Research & Technology Park, Inc. may be obtained at the entity's administrative office at 1735 NDSU Research Park Drive, Fargo, ND 58105.

**UND Aerospace Foundation** is a nonprofit entity organized in 1985 to encourage and develop the University of North Dakota's John D. Odegard School of Aerospace Sciences. The foundation's principal activities consist of developing and conducting training programs, research and development, and consulting services related to the aerospace industry. The foundation is managed by a board of directors consisting of five to seven members, including two or more persons who are active in the aerospace industry and/or graduates of UND with an interest in the aerospace industry, elected by the board; a senior manager of the foundation, elected by the board; the dean of the Odegard School of Aerospace Sciences, and the president of the University. The foundation benefits the University, financially and otherwise, through its promotion of the Odegard School and its programs and in the sharing of resources. Complete financial statements for the Aerospace Foundation may be obtained at the entity's administrative office at Box 9023, Grand Forks, ND 58202.

The **Alumni Association of the University of North Dakota** was incorporated in 1915 for the purpose of 1) keeping classmates in contact with each other, 2) keeping graduates and former students informed of happenings at UND, and 3) involving the graduates, former students, and special friends in the ongoing growth and development of UND. **UND Foundation** was incorporated in 1978 to replace the Alumni Association Development Fund and is the umbrella organization for alumni and private support for UND. These two legally separate nonprofit corporations have the same board of directors and the same executive vice president, but different board presidents and Vice-Presidents. The board of directors consists of 23 voting members, 21 who are alumni of UND and 3 ex-officio members that are officers of UND. Complete combined financial statements for the Alumni Association of the University of North Dakota and University of North Dakota Foundation, may be obtained at the entity's administrative offices at PO Box 8157, Grand Forks, ND 58202.

## NOTES TO THE FINANCIAL STATEMENTS

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**RE Arena, Inc., UND Arena Services, Inc., UND Sports Facilities, Inc., Arena Holdings Charitable LLC and Affiliates** are related organizations with common board of directors and management organized in 2003 for the benefit of UND. These organizations operate and maintain a multipurpose sports and entertainment arena in Grand Forks, ND. The arena is used primarily for UND athletics and activities. UND Sports Facilities, Inc. is the sole member of Arena Holdings Charitable LLC. RE Arena, Inc. conducts the day-to-day operations of the arena as an agent for Arena Holdings. Affiliates of RE Arena market products and services. UND Arena services, Inc. is the legal manager of Arena Holdings. Complete combined financial statements for these organizations may be obtained at Ralph Engelstad Arena, One Ralph Engelstad Arena Drive, Grand Forks ND 58203.

### Non-major Component Units

**Lake Region Community College Foundation** was established in 1959 to provide a permanent structure through which support for Lake Region State College could be channeled. The work and the resources of the foundation are managed by a 27-member board of directors elected by the foundation membership to serve three-year terms. Complete financial statements for the Community College Foundation may be obtained at the entity's administrative office at 1801 College Drive North, Devils Lake, ND 58301-1598.

**Mayville State University Foundation** was established to act primarily as a fund-raising organization to supplement the resources that are available to MaSU. The foundation is managed by a 15-member board of directors comprised of leading citizens, both alumni and friends of the university as well as one ex-officio members that is an officer/employee of MaSU. The **Comet Athletic Club**, a legally separate non-profit organization, operates as an entity within the foundation. The Club's purpose is to promote, support, and encourage interest and participation in MaSU sports. Their financial activity is reflected in the foundation's financial statements. Complete financial statements for Mayville State University Foundation may be obtained at the entity's administrative office at 330 3<sup>rd</sup> Street Northeast, Mayville, ND 58257.

**MiSU-B Development Foundation and Logrollers** are separate legal entities that were established to act primarily as fund-raising organizations to supplement the resources that are available to MiSU-B. The foundation and Logrollers are managed by the same eight-member board of directors comprised of leading citizens, both alumni and friends of the college as well as one ex-officio member that is an officer of MiSU-B. However, each entity has separate committees that direct each organization's activities. Complete combined financial statements for Minot State University-Bottineau Development Foundation and Logrollers may be obtained at the entity's administrative offices at 105 Simrall Boulevard, Bottineau, ND 58318.

**North Dakota State College of Science Foundation** was established to act primarily as a fund-raising organization to supplement the resources that are available to NDSCS. The foundation is managed by a 13-member board of directors comprised of leading citizens, both alumni and friends of the college as well as three ex-officio members that are officers/employees of NDSCS. Complete financial statements for North Dakota State College of Science Foundation may be obtained at the entity's administrative office at 800 Sixth Street North, Wahpeton, ND 58076-0002.

**NDSU Research Foundation** is a legally separate, non-profit 501(c)(3) organization created to provide support to NDSU in its mission by enabling NDSU faculty to enhance their involvement in research, technology transfer, and business endeavors. Through linkages with public and private businesses and industries, the foundation facilitates the commercialization of research technologies developed by NDSU faculty and staff. The foundation is managed by an 11-member board of trustees, comprised of

## **NOTES TO THE FINANCIAL STATEMENTS**

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five NDSU employees and six individuals who are not employed by NDSU. Complete financial statements for the Research Foundation may be obtained at the entity's administrative office at 1735 NDSU Research Park Drive, Fargo, ND 58105.

**Valley City State University Foundation** was established to support Valley City State University by involving alumni and friends of the university in activities and private giving that meet the university's needs and advance its welfare. The foundation is managed by an 18 member Board of Directors comprised of leading citizens, both alumni and friends of the university, as well as one ex-officio member that is an officer of VCSU. Complete financial statements for Valley City State University Foundation may be obtained at the entity's administrative office at 101 College Street SW, Valley City, ND 58072.

**Williston State College Foundation** was established to act primarily as a fund-raising organization to supplement the resources that are available to WSC. The foundation is managed by an 11-member board of directors comprised of leading citizens, both alumni and friends of the college. Complete financial statements for Williston State College Foundation may be obtained at the entity's administrative office at PO Box 1286, 501 18<sup>th</sup> Street East, Williston, ND 58802-1286.

### **JOINT VENTURES**

#### **Tri-College University**

Tri-College University (TCU) is a legally separate organization that is organized exclusively for educational purposes within the meaning of section 501(c)(3) of the Internal Revenue Code. TCU's purpose is to assist in the establishment and maintenance of coordinated programs between Concordia College, Minnesota State University Moorhead and NDSU, as a means of maximizing higher educational services for the people of the region. The organization serves as an agency through which resources are received and dispensed to supplement the educational endeavors of the three universities. The corporation also serves as a means for promoting and strengthening existing and potential educational programs and courses. A ten-member board of directors, including the presidents of the three universities, handles the affairs of the corporation. All property, funds and income of this corporation are held for the exclusive use and benefit of Concordia College, Minnesota State University Moorhead and NDSU. Administration of funds and other resources received by TCU for use in connection with specific programs at NDSU are the responsibility of the university. As of June 30, 2008, Tri-College University had net assets of approximately \$222,581 and is not considered a financial burden to NDSU. The financial activity of this organization is not reflected in the accompanying financial statements. Complete audited financial statements for Tri-College University may be obtained at the entity's administrative office at 209 Energy Technology Bldg., Fargo, ND 58105.

### **RELATED ORGANIZATIONS.**

The entities detailed in Note 16 are excluded from the reporting entity because they were determined to be independent entities. Separate boards of directors control these entities, the college or university does not exercise financial or administrative control over these entities and/or the entities' relationship with the primary institution are not significant enough to warrant inclusion in the reporting entity's financial statements.

### **BASIS OF PRESENTATION**

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for*

## **NOTES TO THE FINANCIAL STATEMENTS**

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*State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, issued in June and November, 1999, as amended by GASB Statement Nos. 36, 37 and 38. The System follows the "business-type activities" (BTA) reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the System's activities.

### **BASIS OF ACCOUNTING**

The financial statements of the University System have been prepared using the economic resources measurement focus and the accrual basis of accounting, whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

The University System follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities. The University System follows all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

### **UNRESTRICTED NET ASSETS**

Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at each institution.

### **RESTRICTED ASSETS**

The University System, based on certain bond covenants, is required to establish and maintain prescribed amounts of resources that can be used only to service outstanding debt. Also, included are unspent bond proceeds that will be expended for construction of capital assets.

### **REVENUE AND EXPENSE RECOGNITION**

The University System presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the University System.

Operating revenues include all charges to customers, grants received for student financial assistance, research contracts and grants, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the University System. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the University System, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions incurred

## **NOTES TO THE FINANCIAL STATEMENTS**

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other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities.

### **BUDGETARY PROCESS**

The State of North Dakota operates through a biennial appropriation. Legislation requires the Board to present a single unified budget request covering the needs of all the institutions under its control to the Governor through the Director of the Office of Management and Budget. The Governor is required by legislation to present his budget to the General Assembly at the beginning of each session. The General Assembly enacts the budget of the various institutions through the passage of specific appropriation acts. Before signing the appropriation acts, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the state's financial plan for the next two years.

The Board allocates contingency and capital emergency funding within guidelines provided by the General Assembly. Any funds received by the Board and entities of the University System pursuant to federal acts, private grants, and other sources not deposited in the operating funds in the state treasury are appropriated for the biennial period. The Board has the authority to transfer funds between line items by notifying the Office of Management and Budget in writing, with the exception that the Board may not approve transfers from any capital assets line item.

The North Dakota Constitution prohibits any transfers between institutions, even by the legislature. Institutions within the University System do not use encumbrance accounting. The legal level of budgetary control is at the institutional line item level, with administrative controls established at lower levels of detail in certain instances.

Board policy requires each college or university to submit a biennial budget for Board approval and annual budgets to be approved by the Chancellor. These budgets are prepared on an accrual basis and include activity relative to current funds and unexpended plant funds. These annual budgets are prepared within the framework of the legislative-approved appropriations and become each institution's financial plan for the coming year. The Board allows each institution discretion in transferring funds between departments.

### **CASH AND CASH EQUIVALENTS**

This classification includes cash on-hand, cash in-bank, regular and money market savings accounts, and certificates of deposit and time saving certificates (original maturity of 3 months or less). For purposes of the Statement of Cash Flows, the University System considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents representing assets of the University System's endowment, unspent bond proceeds and cash restricted by bond covenants are included in non-current restricted cash.

### **INVESTMENTS**

Investments consist of certificates of deposit (maturity greater than three months), U.S. Treasuries, bonds, stocks and other securities held by trust departments or broker dealers. Investments are reported at fair value for year-end financial reporting. Fair value is the amount at which an investment could be exchanged between two willing parties, which for financial reporting purposes is based on quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a part of investment income. Investments are classified as Investments, if the maturity date is more than

## **NOTES TO THE FINANCIAL STATEMENTS**

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three months to one year, or as Other Long-term Investments, if the maturity date is more than one-year from the date of the financial statements. Investments restricted by bond covenants or invested from bond proceeds are classified as Restricted Investments. Investments held by endowment funds are classified as Endowment Investments.

### **RECEIVABLES**

Accounts receivables include tuition, fees, food service, room and board charges and apartment rent; accrued interest on investments; and Family Practice Center revenues (UND). Grants and contracts receivables include federal and private grants and contracts revenue and state grants and other income due from other state agencies. Loan fund notes receivable represents amounts due from students for Perkins and other federal loans, and short-term institutional loans. Net receivables are shown on the basic financial statements. The allowances for doubtful accounts/notes are detailed in Note 3.

### **INVENTORIES**

Inventories held for resale in auxiliaries (including food, books and other merchandise) and unrestricted physical plant supplies are generally stated at the lower of cost (generally determined on the first-in, first-out, or moving weighted average method) or fair market value.

### **PLANT ASSETS**

Land, buildings, equipment, and other property are stated at historical cost, with the exception of property acquired prior to the following dates for the various institutions which are stated at appraised values: July 1, 1964 (MiSU, BSC, NDSCS, NDSU); July 1, 1965 (UND); July 1, 1966 (VCSU, MiSU-Bottineau Campus); July 1, 1969 (DSU); July 1, 1970 (MaSU); July 1, 1984 (WSC); and July 1, 1987 (LRSC). Professional consultants for the purposes of insurance and financial record keeping evaluated these assets. Library books and periodicals are stated at an estimated inventory value as of the following dates for the following institutions with subsequent additions at cost and deletions at average cost: June 30, 1973 (MaSU, VCSU); June 30, 1974 (UND, NDSCS, NDSU, MiSU-Bottineau Campus); June 30, 1976 (DSU); July 1, 1979 (MiSU); June 30, 1985 (BSC, LRSC); and June 30, 1990 (WSC).

Capital assets with a unit cost of \$5,000 or greater and all library books, are recorded at cost at the date of acquisition, or if donated, at fair market value at the date of donation. Infrastructure assets are included in the financial statements and are depreciated. Depreciation is not allocated to the functional categories.

The composite method is used for library book depreciation. All books purchased during a year are consolidated together and depreciated as a group of assets rather than individually. Expenses for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized, net of interest income earned on resources set aside for the construction or remodeling costs. Certain reserves have been established by bond indenture for the repayment of revenue bond indebtedness. Such reserves are recorded in the appropriate restricted assets category (cash/investments) and as "net assets restricted for debt service" on the Statement of Net Assets.

Depreciation is calculated using the straight-line method over the following estimated useful lives for the System and its component units. All campuses, except UND and NDSU, use the ½ year convention.

Land Improvements	10 – 35 years
Infrastructure	20 – 60 years
Buildings	10 – 50 years

## **NOTES TO THE FINANCIAL STATEMENTS**

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Equipment	3 – 20 years
Intangibles	15 years
Library Books	10 years

### **DEPOSITS**

Money received in advance for subsequent year's residence hall, apartment reservations and flight training costs and funds held by an institution in a fiduciary capacity are classified as deposits.

### **COMPENSATED ABSENCES**

Annual and sick leave are a part of permanent employees' compensation as set forth in NDCC section 54-06-14. In general, accrued annual leave cannot exceed 30 days at each calendar year end while accrued sick leave is not limited. Employees are entitled to earn leave based on tenure of employment, within a range from a minimum of one working day, to a maximum of two working days per month, established by the rules and regulations adopted by the employing unit. Employees are paid for all unused annual leave upon termination or retirement. Employees who vest at 10 years of credible service are paid one-tenth of their accumulated sick leave upon termination or retirement. Compensated absences are accrued when earned.

### **SCHOLARSHIP ALLOWANCES**

Student tuition and fees, and certain other revenues received from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net assets. Scholarship discounts and allowances are the difference between the System's state rates and charges and the amount actually paid by students and/or third parties making payments on behalf of students. Under this approach, scholarships, waivers and grants are considered as reductions in tuition and fee revenues rather than as expenses. Therefore, student tuition and fees and auxiliary revenues are presented net of scholarships applied to student's accounts. Certain other scholarship amounts paid or refunded directly to the student are generally reflected as expenses.

### **PLEDGES**

Pledges for gifts that are made directly to component units and related and affiliated organizations, which will benefit the University System, will be recorded as revenue when received as detailed in Note 16.

### **NET ASSETS**

Net assets are classified according to external donor restrictions or availability of assets for satisfaction of University System obligations. Restricted Net Assets represent funds that have been restricted for specific purposes by donors or granting agencies for scholarships and fellowships, instructional department uses, loan funds, debt service and other. Unrestricted Net Assets are all other funds available at the discretion of the University System. Invested in Capital Assets represents the cost or gifted value of buildings, equipment, land improvements and infrastructure, less accumulated depreciation and related outstanding debt.

## NOTES TO THE FINANCIAL STATEMENTS

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### RESTATEMENT OF BEGINNING NET ASSETS

	Primary Institution	Component Units
Net assets, beginning of the year, as previously reported	\$ 702,451,948	\$ 476,393,812
Prior period adjustments:		
Change in Accounting Method	-	274,305
Depreciation Adjustment	-	165,798
Deferral and accrual errors	-	329,363
Net assets, beginning of the year, as restated	<u>\$ 702,451,948</u>	<u>\$ 477,163,278</u>

### NOTE 2 – DEPOSITS AND INVESTMENTS

#### LIMITATIONS

##### **Primary Institution**

North Dakota Century Code (NDCC) governs the deposit and investment policies of the System. NDCC Section 6-09-07 states, “All state funds...must be deposited in the Bank of North Dakota (BND) ...or must be deposited in accordance with constitutional and statutory provisions.”

In addition, NDCC Section 21-04-02 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. NDCC Section 15-10-12 requires that all moneys not deposited in the special revenue fund within the State Treasury (unless restricted by the terms of a grant, donation or bequest), received by the institutions from federal, state, and local grants and contracts, indirect cost recoveries, tuition, special student fees, room and board and other auxiliary enterprise fees, student activity fees, continuing education program fees, internal service fund revenues, and all other revenues must be deposited in the BND.

NDCC Sections 15-55-05 and 15-55-06 govern the investment of proceeds of revenue bonds and revenues pledged to bondholders. Such proceeds must be invested in the BND, in a separate fund in the State Treasury or in a duly authorized depository for the state funds that is a member of the federal deposit insurance corporation. The Board may invest such funds in direct obligations of, or in obligations where the United States of America guarantees the principal and interest, or obligations of the State of North Dakota or any municipality as defined in NDCC Section 21-03-01.

##### **Major Component Units**

Subject to any limitations in gift instruments, funds may be invested in any real or personal property deemed advisable by the governing board in accordance with the component unit's investment policies.

#### DEPOSITS

Cash and Cash Equivalents are reported on the Statement of Net Assets for the System and its major component units as follows:

## NOTES TO THE FINANCIAL STATEMENTS

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### Primary Institution

	<b>June 30, 2008</b>	
	<b>Carrying Amount</b>	<b>Bank Balance</b>
Cash Deposits	\$ 75,808,075	\$ 84,679,669
Certificates of Deposit	117,255,011	117,255,011
Total Bank Deposits	<u>193,063,086</u>	<u>\$ 201,934,680</u>

Add: Cash on Hand/Petty Cash	251,390
Less: Amts. credit risked as deposits but reported as investments	(117,255,011)
Cash & Cash Equivalents per Statement of Net Assets	<u>\$ 76,059,465</u>

#### *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a financial institution failure, the System's deposits may not be returned to it. The System does not specifically address policies concerning custodial credit risk and while the deposits in the Bank of North Dakota are backed by the State of North Dakota, they are deemed to be uninsured and uncollateralized by GASB definition. As of June 30, 2008, \$200 million of the System's bank balance of \$202 million was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$194,727,896
Uninsured and collateral held by pledging bank not in system's name	5,258,576

### Major Component Units

	<b>June 30, 2008</b>	
	<b>Carrying Amount</b>	<b>Bank Balance</b>
Cash Deposits	\$ 29,818,973	\$ 30,161,737
Certificates of Deposit	600,009	-
Total Bank Deposits	<u>30,418,982</u>	<u>\$ 30,161,737</u>

Add: Cash on Hand/Petty Cash	1,400
Less: Amts. credit risked as deposits but reported as investments	(600,009)
Cash & Cash Equivalents per Statement of Net Assets	<u>\$ 29,820,373</u>

#### *Custodial Credit Risk*

As of June 30, 2008, \$22.8 million of the component units' bank balance of \$30.18 million was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 16,053,366
Uninsured and collateral held by pledging bank not in system's name	\$ 6,005,442
Uninsured and collateral held by pledging bank's trust department not in system's name	\$ 732,458

## NOTES TO THE FINANCIAL STATEMENTS

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### Investments

Investments are reported for the System and its major component units at fair value (market) and reported on the Statement of Net Assets as follows:

As of June 30, 2008, the System had investments as shown below:

#### Primary Institution

Investment Type	Market Value	Maturities			
		Less than 1 year	1 year to 5 years	6 years to 10 years	Over 10 years
US Treasuries	\$ 8,633,439	\$ 2,535,836	\$ 5,629,932	\$ 467,671	\$ -
US Strips	368,829	172,567	148,740	47,522	-
Corporate Bonds	173,146	-	173,146	-	-
Mutual Bond Funds	274,476	274,476	-	-	-
FNMA	291,093	-	-	-	291,093
FHLBC	146,717	46,069	100,648	-	-
Money market mutual funds	7,501,507	7,501,507	-	-	-
Certificates of Deposit-BND	116,871,585	81,371,585	35,395,000	105,000	-
Certificates of Deposit-Other	389,987	378,987	11,000	-	-
Guaranteed Investment Contracts	237,375	-	-	-	237,375
Other	115,158	115,158	-	-	-
<b>Subtotal</b>	<b>\$ 135,003,312</b>	<b>\$ 92,396,185</b>	<b>\$ 41,458,466</b>	<b>\$ 620,193</b>	<b>\$ 528,468</b>
Stocks	13,104,869				
Equity Mutual Funds	1,394,420				
Other	581,883				
<b>Total Investments per the Statement of Net assets</b>	<b>\$ 150,084,484</b>				

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Per NDCC the system is limited to investing funds with the Bank of North Dakota, with the exception of gifts governed by an endowment agreement. Accordingly, the system does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Campuses choose terms based on maximizing their return within the limits of their cash flow needs. Campuses rely on brokers to provide year-end market values for the investments held with those brokers.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an institution's investments in a single issuer. Investments with the following issuers represent 5 percent or more of the System's total investments at June 30, 2008:

Bank of North Dakota	\$ 116,871,585
Alerus	\$ 14,402,375
US Bank	11,818,075
	<b>\$ 143,092,035</b>

#### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligation. As of June 30, 2008, the system's debt portfolio (excluding US Treasuries and US Agencies) included Standard & Poor's quality ratings as follows:

## NOTES TO THE FINANCIAL STATEMENTS

Investment Type	Credit Quality Rating					
	AAA	AAAm	A+	A	AA-	Not Rated
Corporate Bonds	\$ 25,180	\$ -	\$ 75,279	\$ -	\$ 72,687	\$ -
Mutual Bond Funds	-	-	-	-	-	274,476
Money market mutual funds	-	7,501,507	-	-	-	-
FNMA	291,093	-	-	-	-	-
FHLMC	146,717	-	-	-	-	-
Other	-	-	-	-	-	57,135
<b>Total</b>	<b>\$ 462,990</b>	<b>\$ 7,501,507</b>	<b>\$ 75,279</b>	<b>\$ -</b>	<b>\$ 72,687</b>	<b>\$ 331,611</b>

### *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a failure of counterparty to a transaction, the institution would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of June 30, 2008, the system had \$657,000 of investments that were uninsured and not registered in the name of the system. Thereby, the exposure of these investments to custodial credit risk has been heightened.

### **Major Component Units**

As of June 30, 2008, the major component units had investments as shown below:

Investment Type	Market Value	Maturities			
		Less than 1 year	1 year to 5 years	6 years to 10 years	More than 10 years
US Treasuries	\$ 167,913	\$ 40,281	\$ 115,598	\$ 12,034	\$ -
US Agencies	322,790	-	104,204	218,586	-
Corporate Bonds	3,857,862	727,878	1,930,477	832,089	367,418
State and Municipal Bonds	401,343	-	26,403	47,872	327,068
Mutual Bond Funds	37,212,451	1,045,672	18,515,868	1,723,389	15,927,522
Commercial Paper	636,740	636,740	-	-	-
Certificates of Deposit	1,333,924	1,091,022	142,803	100,099	-
Money Market Funds/Cash	2,356,315	2,356,315	-	-	-
FNMA	344,207	150,234	119,740	73,213	1,020
FHLMC	1,155,969	31,612	246,820	645,604	231,933
Other	2,660,122	-	2,610,206	-	49,916
<b>Subtotal</b>	<b>\$ 50,449,636</b>	<b>\$ 6,079,754</b>	<b>\$ 23,812,119</b>	<b>\$ 3,652,886</b>	<b>\$ 16,904,877</b>
Stocks	55,139,287				
Equity Mutual Funds	75,398,468				
Life income and annuity funds	5,809,541				
Trust Funds	46,978,515				
Investment in Real Estate	9,095,585				
Limited Partnerships	20,800,177				
Other	72,247,076				
<b>Total Investments per the Statement of Net assets</b>	<b>\$ 335,918,285</b>				

### *Interest Rate Risk*

Minot State University Development Foundation's investment policy addresses interest rate risk as it relates to duration and maturity of investments concurrent with interest rates, without specifically limiting maturities. North Dakota State University Development Foundation's investment policy addresses interest rate risk by requiring allocation of fixed income securities among maturities of different lengths according to interest rate prospects. Bismarck State College Foundation's investment

## NOTES TO THE FINANCIAL STATEMENTS

policy limits the average maturity of the portfolio to between four and seven years with a maximum maturity for any one fixed income security of ten years. University of North Dakota Foundation's investment policy requires at least yearly liquidity on its alternative investment strategies and quarterly diagnostic risk analysis of all mutual funds.

### *Custodial Credit Risk*

As of June 30, 2008, the major component units had \$5.4 million of investments that were uninsured and not registered in the name of the component unit. Thereby, the exposure of these investments to custodial credit risk has been heightened. These investments include stocks and bonds and were held by the counterparty's trust department or agent, but not in the component units' name.

### *Credit Risk*

As of June 30, 2008, the component units' debt portfolio (excluding US Treasuries and US Agencies) included Standard & Poor's credit quality ratings as follows:

Investment Type	Credit Quality Rating							
	AAA	AA	AA-	AAAm	AA3	A+	A	A-
Corporate Bonds	\$ 523,150	\$ 94,337	\$ 45,432	\$ -	\$ 51,977	\$ 24,966	\$ 374,764	\$ 409,565
State and Municipal Bonds	49,221	-	-	-	-	-	-	-
Mutual Bond Funds	-	1,723,389	-	-	-	4,788	203,825	-
Money market mutual funds	-	-	-	2,356,315	-	-	-	-
FNMA	115,375	-	-	-	-	-	-	-
FHLMC	721,279	-	-	-	-	-	-	-
Total	<u>\$ 1,458,941</u>	<u>\$ 1,817,726</u>	<u>\$ 45,432</u>	<u>\$ 2,356,315</u>	<u>\$ 51,977</u>	<u>\$ 29,754</u>	<u>\$ 578,589</u>	<u>\$ 409,565</u>

Investment Type	Credit Quality Rating - (continued)							
	A1	A2	A3	Aa1	Aa2	Aa3	Aaa	BBB
Corporate Bonds	\$ 117,412	\$ 121,632	\$ 63,850	\$ 24,910	\$ 192,068	\$ 172,066	\$ 86,022	\$ 34,902
State and Municipal Bonds	-	34,579	-	101,022	25,055	34,740	59,614	-
Mutual Bond Funds	-	-	-	-	-	-	-	197,454
FNMA	-	-	-	-	-	-	78,598	-
FHLMC	-	-	-	-	-	-	152,103	-
Other	-	-	-	-	-	-	201,814	-
Total	<u>\$ 117,412</u>	<u>\$ 156,211</u>	<u>\$ 63,850</u>	<u>\$ 125,932</u>	<u>\$ 217,123</u>	<u>\$ 206,806</u>	<u>\$ 578,151</u>	<u>\$ 232,356</u>

Investment Type	Credit Quality Rating - (continued)							
	BBB-	BB	B	B1	Ba1	Baa	Baa2	Unrated
Corporate Bonds	\$ 150,375	\$ -	\$ 109,224	\$ 44,800	\$ -	\$ -	\$ 18,870	\$ 1,197,540
State and Municipal Bonds	-	-	-	-	48,379	-	-	48,733
Mutual Bond Funds	-	204,746	-	-	-	239,133	-	34,639,116
Commercial Paper	-	-	-	-	-	-	-	636,740
FNMA	-	-	-	-	-	-	-	150,234
FHLMC	-	-	-	-	-	-	-	282,587
Total	<u>\$ 150,375</u>	<u>\$ 204,746</u>	<u>\$ 109,224</u>	<u>\$ 44,800</u>	<u>\$ 48,379</u>	<u>\$ 239,133</u>	<u>\$ 18,870</u>	<u>\$ 36,954,950</u>

## NOTE 3 – RECEIVABLES

Receivables at June 30, 2008, for the primary institution consist of the following amounts:

## NOTES TO THE FINANCIAL STATEMENTS

	<u>Current</u>	<u>NonCurrent</u>	<u>Total</u>
Student and general	\$ 19,107,910		\$ 19,107,910
Interest - BND	368,435		368,435
Allowance for doubtful accounts	(3,934,382)		(3,934,382)
Accounts Receivable, net	<u>\$ 15,541,963</u>		<u>\$ 15,541,963</u>
Grants & contracts receivable	\$ 34,699,027		\$ 34,699,027
Due from other state agencies	1,758,254		1,758,254
Grants & contracts receivable, net	<u>\$ 36,457,281</u>		<u>\$ 36,457,281</u>
Student Loans	\$ 10,680,903	\$ 37,309,483	\$ 47,990,386
Allowance for doubtful notes	(2,701,877)	(3,375,645)	(6,077,522)
Loans receivable, net	<u>\$ 7,979,026</u>	<u>\$ 33,933,838</u>	<u>\$ 41,912,864</u>

### NOTE 4 – ENDOWMENT FUNDS

The endowment funds reported herein are donor-restricted funds in the custody of the University System. Investment income on the amount endowed is restricted for scholarships and other purposes. NDCC Section 15-67-04 applies to the investment of endowments governed by a gift instrument. Subject to any limitations in the gift instrument such funds may be invested in any real or personal property deemed advisable by the governing board. NDCC Section 15-67-06 applies to standard of conduct in the administration of powers to make and retain investments. It states “In the administration of the powers to appropriate appreciation and in making investment decisions, members of the governing board shall consider long-term and short-term needs of the institution in carrying out its purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.” Given the flexibility in NDCC 15-67-06, campuses have differing policies with respect to spending investment income and net appreciation on endowment funds. UND’s policy allows up to 4.5% of the average of the last five years of assets in the Alerus endowment pool to be expended. NDSU allows expenditure of 80 percent of appreciation. MiSU allows for 4.5 percent of earnings to be used for scholarships and .5 percent for administrative expenses. MaSU, VCSU and WSC give departments authority to spend all investment income earned on the endowment funds. Net appreciation on investments are available for expenditure and consists of the following at June 30, 2008:

		<u>Reflected in net assets as:</u>
Mayville State University	\$ 783	Unrestricted net assets
Minot State University	71,528	Expendable scholarships & fellowships
North Dakota State University	92,424	Restricted scholarships & fellowships
University of North Dakota	310,000	Non -expendable scholarships & fellowships
Williston State College	913	Cash in bank
<b>Total NDUS</b>	<b><u>\$ 475,648</u></b>	

Endowment funds reported herein do not include the Federal Land Grant Fund held by the State Land Department. The annual proceeds from assets held by the State Land Commissioner are deposited into each college/university's operating fund at the State Treasury and are used for current operating purposes. Bismarck State College, Lake Region State College and Williston State College do not participate in the proceeds allocated by the State Land Department. Total assets held by the State Land Department and proceeds for the fiscal year ended June 30, 2008 are \$42,160,190 and \$1,430,000, respectively.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5 – CAPITAL ASSETS

#### PRIMARY INSTITUTION

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance*	Additions	Retirements	Transfers	Ending Balance
Land	\$ 16,053,095	\$ 26,000	\$ -	\$ -	\$ 16,079,095
Construction in progress	68,443,886	24,090,612	1,533,574	(48,189,687)	42,811,237
<b>Total non-depreciable capital assets</b>	<b>\$ 84,496,981</b>	<b>\$ 24,116,612</b>	<b>\$ 1,533,574</b>	<b>\$ (48,189,687)</b>	<b>\$ 58,890,332</b>
Land improvements/infrastructure	\$ 142,088,854	\$ 3,571,218	\$ -	\$ (239,096)	\$ 145,420,976
Buildings	727,392,411	24,814,722	773,506	48,428,783	799,862,410
Furniture, fixtures, and equipment	201,011,061	23,065,397	7,811,162	-	216,265,296
Intangibles	16,044,688	-	-	-	16,044,688
Library materials	97,410,050	5,028,245	886,882	-	101,551,413
<b>Total depreciable capital assets</b>	<b>\$ 1,183,947,064</b>	<b>\$ 56,479,582</b>	<b>\$ 9,471,550</b>	<b>\$ 48,189,687</b>	<b>\$ 1,279,144,783</b>
Less accumulated depreciation					
Land improvements/infrastructure	\$ 58,023,923	\$ 3,557,970	\$ -	\$ -	\$ 61,581,893
Buildings	337,091,766	17,837,297	484,158	-	354,444,905
Furniture, fixtures, and equipment	118,048,291	14,648,760	5,591,113	-	127,105,938
Intangibles	2,138,492	1,069,246	-	-	3,207,738
Library materials	71,516,301	4,448,378	886,882	-	75,077,797
<b>Total accumulated depreciation</b>	<b>586,818,773</b>	<b>41,561,651</b>	<b>6,962,153</b>	<b>-</b>	<b>621,418,271</b>
<b>Total depreciable capital assets, net</b>	<b>\$ 597,128,291</b>	<b>\$ 14,917,931</b>	<b>\$ 2,509,397</b>	<b>\$ 48,189,687</b>	<b>\$ 657,726,512</b>
<b>Capital assets, net</b>	<b>\$ 681,625,272</b>	<b>\$ 39,034,543</b>	<b>\$ 4,042,971</b>	<b>\$ -</b>	<b>\$ 716,616,844</b>

Construction in process for the year ended June 30, 2008 was as follows:

	Amount Authorized	Expended (CIP Asset)	Authorized Balance
Bismarck State College	\$ 6,479,750	\$ 5,094,604	\$ 1,385,146
Dickinson State University	-	-	-
Mayville State University	1,139,000	86,214	1,052,786
Minot State University	8,213,874	701,624	7,512,250
Minot State University-Bottineau	252,000	16,361	235,639
North Dakota State College of Science	126,000	5,507	120,493
North Dakota State University	66,778,507	32,747,519	34,030,988
University of North Dakota	6,559,023	2,889,012	3,670,011
Valley City State University	2,200,000	1,180,704	1,019,296
Williston State College	2,286,546	89,692	2,196,854
<b>Total NDUS</b>	<b>\$ 94,034,700</b>	<b>\$ 42,811,237</b>	<b>\$ 51,223,463</b>

#### Major Component Unit

Capital asset activity for the major component units for the year ended June 30, 2008 was as follows:

## NOTES TO THE FINANCIAL STATEMENTS

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 3,249,039	\$ 22,776	\$ 57,057	\$ -	\$ 3,214,758
Construction in progress	8,442,141	1,908,738	-	-	10,350,879
<b>Total non-depreciable capital assets</b>	<b>\$ 11,691,180</b>	<b>\$ 1,931,514</b>	<b>\$ 57,057</b>	<b>\$ -</b>	<b>\$ 13,565,637</b>
Land improvements/infrastructure	\$ 1,544,811	\$ 92,719	\$ -	\$ -	\$ 1,637,530
Buildings	119,636,490	985,123	-	-	120,621,613
Furniture, fixtures, and equipment	16,755,369	4,032,915	2,001,392	-	18,786,892
<b>Total depreciable capital assets</b>	<b>\$ 137,936,670</b>	<b>\$ 5,110,757</b>	<b>\$ 2,001,392</b>	<b>\$ -</b>	<b>\$ 141,046,035</b>
Less accumulated depreciation					
Land improvements/infrastructure	\$ 284,371	\$ 53,306	\$ -	\$ -	\$ 337,677
Buildings	20,655,042	6,580,607	-	2,104	27,237,753
Furniture, fixtures, and equipment	6,238,547	1,346,774	1,438,631	(2,104)	6,144,586
<b>Total accumulated depreciation</b>	<b>\$ 27,177,960</b>	<b>\$ 7,980,687</b>	<b>\$ 1,438,631</b>	<b>\$ -</b>	<b>\$ 33,720,016</b>
<b>Total depreciable capital assets, net</b>	<b>\$ 110,758,710</b>	<b>(2,869,930)</b>	<b>562,761</b>	<b>-</b>	<b>107,326,019</b>
<b>Capital assets, net</b>	<b>\$ 122,449,890</b>	<b>\$ (938,416)</b>	<b>\$ 619,818</b>	<b>\$ -</b>	<b>\$ 120,891,656</b>

Construction in process for the major component units for the year ended June 30, 2008 was as follows:

	<b>Amount Authorized</b>	<b>Expended (CIP Asset)</b>	<b>Authorized Balance</b>
BSC Foundation	\$ 17,408,501	\$ 10,350,879	\$ 7,057,622

## NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2008:

<b>Accounts Payable and Accrued Liabilities</b>	
Accounts payable	\$ 20,743,393
Due to other state agencies	250,830
Sales tax payable	28,361
Accrued interest - BND	2,267,785
Other	31,769
Contractor retainage	1,806,128
	<b>\$ 25,128,266</b>

## NOTE 7 – LONG-TERM LIABILITIES

### PRIMARY INSTITUTION

The changes in long-term liabilities during fiscal year 2008 for the primary institution are as shown below:

## NOTES TO THE FINANCIAL STATEMENTS

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	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Bonds Payable	\$ 190,625,206	\$ 12,000,000	\$ 7,667,850	\$ 194,957,356	\$ 8,603,460	\$ 186,353,896
Notes Payable	6,610,731	-	1,036,240	5,574,491	1,098,853	4,475,638
Capital Leases	46,081,282	10,626,205	6,868,210	49,839,277	4,772,619	45,066,658
Special Assessments	1,788,630	828,429	976,247	1,640,812	167,558	1,473,254
Compensated Absences	21,878,284	2,032,012	243,328	23,666,968	1,227,479	22,439,489
<b>Total</b>	<b>\$ 266,984,133</b>	<b>\$ 25,486,646</b>	<b>\$ 16,791,875</b>	<b>\$ 275,678,904</b>	<b>\$ 15,869,969</b>	<b>\$ 259,808,935</b>

### MAJOR COMPONENT UNITS

The changes in long-term liabilities during fiscal year 2008 for the major component units are as shown below:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Bonds Payable	\$ 62,041,244	\$ 20,720,000	\$ 4,160,295	\$ 78,600,949	\$ 2,870,432	\$ 75,730,517
Notes Payable	8,585,286	1,100,000	1,302,414	8,382,872	2,024,092	6,358,780
Capital Leases	2,035,888	-	83,783	1,952,105	85,557	1,866,548
Special Assessments	663,208	-	132,646	530,562	26,321	504,241
<b>Total</b>	<b>\$ 73,325,626</b>	<b>\$ 21,820,000</b>	<b>\$ 5,679,138</b>	<b>\$ 89,466,488</b>	<b>\$ 5,006,402</b>	<b>\$ 84,460,086</b>

### NOTE 8 – BONDS PAYABLE

#### PRIMARY INSTITUTION

Revenue bonds are limited obligations of the University System. The principal and interest on the bonds are payable generally from the net income of specific auxiliary activities, designated student fees, interest subsidies and debt service reserve funds. These revenues are generally pledged to the payment of bonds in accordance with the specific terms of the specific indenture. Amounts held by the trustee specifically for payment on bonds are reflected in Net Assets, Restricted for Debt Service.

The summary of outstanding obligations of the campuses, as of June 30, 2008 is presented below and the detail is presented in the Supplementary Information section following these notes.

## NOTES TO THE FINANCIAL STATEMENTS

	Original Balances	Interest Rates	Balances Outstanding
Bismarck State College	\$ 4,650,000	3.4 - 6.1%	\$ 4,150,000
Dickinson State University	775,000	4.0 - 5.0%	680,000
Lake Region State College	1,050,000	4.0-5.125%	810,000
Mayville State University	3,495,000	4.8 - 5.38%	2,480,081
Minot State University	10,801,000	0 - 5.25%	6,795,875
Minot State University - Bottineau	390,000	6.25 - 6.95%	104,000
North Dakota State College of Science	3,035,000	0 - 5.5%	1,336,250
North Dakota State University	149,590,000	0 - 5.6%	90,490,375
University of North Dakota	89,190,000	0 - 5.0%	74,203,125
Valley City State University	4,050,000	4.3 - 7.25%	3,290,000
Williston State College	2,046,000	0 - 4.75%	596,000
North Dakota University System	14,200,000	0 - 4.28%	10,021,650
<b>Total Bonds Payable</b>	<b>\$ 283,272,000</b>		<b>\$ 194,957,356</b>

### Industrial Commission Bonds

For the 2007-2009 biennium, the North Dakota University System Office received an appropriation of \$15.75 million to act as the fiscal agent for the campuses on bond payments to the Industrial Commission. Of this total, \$1.03 million is special funds, which is the amount the campuses pay as local match. During fiscal year 2008, the North Dakota University System Office paid \$7.13 million in general funds to the Industrial Commission of North Dakota.

### Refunding and Defeased Bonds

The purpose of a refunding bond is to refund in advance of maturity another bond issue. Under an advanced refunding arrangement, refunding bonds are issued, and the net proceeds plus additional resources that may be required, are used to purchase securities issued or guaranteed by the United States Government. These securities are then deposited in an irrevocable trust under an escrow agreement which provides that all proceeds from the trust will be used to fund the principal and interest payments of the previously issued bonded debt being refunded. The trust deposits have been computed so that the securities in the trust, along with future cash flow generated by the securities, will be sufficient to service the previously issued bonds. As a result, trust account assets and liabilities for the defeased bonds are not included in the University System's financial statements. The following is a description of the University System's defeased bonds and the balance of the bonds outstanding in the trust.

### Mayville State University

On July 1, 1998, Mayville State University issued \$695,000 of Student Center Refunding Revenue Bonds (Series 1998) to advance refund \$640,000 of outstanding 1989 Student Center Revenue Bonds. The principal amount outstanding as of June 30, 2008 of the original 1989 bonds refunded, totaled \$75,000.

### North Dakota State College of Science

On June 20, 2001, North Dakota State College of Science issued \$2,785,000 of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 2001). These bonds were used to i) refund, defease and discharge outstanding North Dakota State School of Science Married Student Housing Revenue Bonds 1970, Dormitory Revenue Bonds of 1970, and Dormitory Revenue Bonds of 1972; ii) finance the cost of the construction of the parking lot and related improvements at the College; and iii) to pay certain costs associated with the issuance of the Series 2001 bonds. The principal amount outstanding as of June 30, 2008, of the original 1970 bonds refunded, is \$665,000.

## NOTES TO THE FINANCIAL STATEMENTS

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### North Dakota State University

On May 1, 2006, North Dakota State University issued \$2,845,000 of Housing & Auxiliary Facilities Revenue Bonds, (Series 2006B) with an average interest rate of 4.625 percent. The bonds were used to advance refund a portion (\$2,880,000) of outstanding 1999 Student Health & Wellness Center Revenue Bonds (with an average interest rate of 5.3 percent). The University advance refunded the bonds to reduce its total debt service payments over the next 13 years by approximately \$422,000 and to obtain an economic gain (difference of the present values of the debt service payments on the old and new debt) of approximately \$245,000. The principal amount outstanding as of June 30, 2008 of the original amount of the portion of the 1999 bonds refunded, totaled \$2,880,000.

On December 30, 1985, the University issued \$4,833,813 of Housing and Auxiliary Facilities Revenue Refunding Bonds (Series 1985). The purpose of issuing Series 1985 bonds was to refund in advance of maturity the outstanding advanced refunded bonds, which consisted of all bonds outstanding as of December 30, 1985, totaling \$7,675,000. The principal amounts outstanding as of June 30, 2008 of the original bonds refunded, total \$575,000.

On January 25, 2007, the NDSU Research & Technology Park, Inc., issued \$22,835,000 of Lease Revenue Refunding Bonds, Series 2007A and 2007B with an average true interest rate of 4.30 percent. The bonds were used to advance refund a portion (\$21,580,000) of outstanding Series 2000 Lease Revenue Bonds and Series 2002 Lease Revenue Bonds (with an average interest rate of 5.5 and 4.9 percent, respectively). The NDSU Research & Technology Park advance refunded the funds to reduce its total debt service payments over the next 24 years by approximately \$1,075,086 and to obtain an economic gain (difference of the present values of the debt service payments on the old and new debt) of approximately \$635,567. The principal amount outstanding as of June 30, 2008 or the original amount of the portion of the Series 2000 and 2002 bonds refunded, totaled \$21,580,000.

### University of North Dakota

On January 1, 1998, the University of North Dakota issued \$22.6 million of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 1998A) to advance refund \$20.4 million of outstanding 1988 Series A & B Housing and Auxiliary Facilities Refunding Revenue Bonds and to provide \$450,000 for parking lot construction at the Rural Technology Center. The principal amount outstanding as of June 30, 2008, of the original 1988 bonds refunded, totaled \$10,330,000.

Housing and Auxiliary Facilities Refunding Series 1985A bonds were originally issued (in addition to financing construction costs) to refund in advance of maturity, the outstanding advanced refunding bonds as follows: (a) \$14,520,000 of Housing and Auxiliary Facilities Revenue Bonds Series 1984A, and (b) \$3,750,000 of Housing and Auxiliary Facilities Revenue Bonds Series 1984B. The principal amounts outstanding as of June 30, 2006, of the original bonds refunded by the advance refunding of 1985, totaled \$0. Housing and Auxiliary Facilities Refunding Bonds Series 1984A, which were included in the advance refunding of 1985 as described above, were originally issued in 1984 for the purpose of advance refunding certain outstanding bonds (Series I through Series N). The principal amounts outstanding as of June 30, 2007 of the original bonds refunded by the advance refunding of 1984 totaled \$0. Housing and Auxiliary Facilities Revenue Bonds Series I and Series J, which were included in the advance refunding of 1984 as described above, were originally issued in 1975 for the purpose of advance refunding certain outstanding bonds of the University. The principal amounts outstanding as of June 30, 2008, of the original bonds refunded by the advance refunding of 1975, totaled \$190,000.

## NOTES TO THE FINANCIAL STATEMENTS

### Scheduled Maturities of Bonds Payable – Primary Institution

Fiscal Year	Principal	Interest	Total
2009	\$ 8,603,460	\$ 8,849,175	\$ 17,452,635
2010	8,533,908	8,526,037	17,059,945
2011	8,864,262	8,180,375	17,044,637
2012	8,963,488	7,815,793	16,779,281
2013	8,363,054	7,450,065	15,813,119
2014 - 2018	30,378,259	32,677,031	63,055,290
2019 - 2023	31,595,925	25,795,261	57,391,186
2024 - 2028	35,100,000	18,169,117	53,269,117
2029 - 2033	40,140,000	9,046,757	49,186,757
2034 - 2038	<u>14,415,000</u>	<u>1,171,440</u>	<u>15,586,440</u>
	<u><u>\$ 194,957,356</u></u>	<u><u>\$ 127,681,051</u></u>	<u><u>\$ 322,638,407</u></u>

### MAJOR COMPONENT UNITS

Issue	June 30, 2008	
	Interest Rate	Balance Outstanding
<b>BSC Foundation</b>		
2006 MIDA revenue bonds, annual principal payments and semi-annual interest payments interest rate fixed, maturity October, 2001.	4.5-5.25%	\$ 1,335,000
2007 Series A MIDA revenue bonds., quarterly principal and interest payments, interest rate fixed, maturity April, 2012.	4.5-5.25%	\$ 2,586,871
2007 Series B MIDA revenue bonds, quarterly principal and interest payments, interest rate fixed, maturity April, 2032.	5.01%	\$ 5,000,000
<b>NDSU Development Foundation</b>		
First Mortgage Revenue Bonds, semi-annual principal and interest installments of \$80,645, maturity December 2018, interest rate fixed.	5.19%	\$ 1,293,073
University Facilities Revenue Bonds,series 2003, semi -annual fixed interest payments, annual principal intstallments, maturity November 2024.	2.5%-4.75%	\$ 3,745,000
University Facilities Revenue Bonds,series 2005, semi-annual principal and interest installments of \$165,998, maturity December 2020, interest rate fixed.	4.89%	\$ 3,077,736
University Facilities Revenue Bonds,series 2007A, semi-annual principal and interest installments,variable semi-annual interest based on the six-moth MIG-1 yield plus .30% not to exceed 10% per annum, maturity November 2027,	2.40%	\$ 4,328,000
University Facilities Revenue Bonds,series 2007B, semi-annual principal and interest installments, maturity November 2027, interest rate fixed.	5.11%	\$ 7,366,502

## NOTES TO THE FINANCIAL STATEMENTS

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University Facilities Revenue Bonds, series 2007C, semi-annual principal and interest installments, variable semi-annual interest based on the six-month MIG-1 yield plus .30% not to exceed 10% per annum, maturity November 2027.	2.40%	\$ 1,277,000
University Facilities Revenue Bonds, series 2007A, semi-annual principal and interest installments, maturity November 2027, interest rate fixed.	5.11%	\$ 3,871,881
<b>NDSU Research &amp; Technology Park, Inc.</b>		
2000 Series A and B Tax Exempt Lease Revenue Bonds, maturity June 30, 2022, semi-annual principal and interest payment, interest rate fixed.	4.95%-5.4%	\$ 815,000
2002 Series A Tax Exempt Lease Revenue Bonds, maturity June 30, 2032, semi-annual principal and interest payment, interest rate fixed.	3.0%-5.0%	\$ 1,945,000
2007 Series B Tax Exempt Lease Revenue Bonds, maturity June 30, 2032, semi-annual principal and interest payment, interest rate fixed.	3.5%-4.125%	\$ 4,675,000
2007 Series A Tax Exempt Lease Revenue Bonds, maturity June 30, 2022, semi-annual principal and interest payment, interest rate fixed.	3.5%-4.75%	\$ 17,860,000
<b>Arena Holdings Charitable LLC</b>		
Series 2007 revenue bonds, semi-annual principal and interest installments, interest rate to adjust every 10 years, based on LIBOR plus 1.75%, divided by 1.50, maturity December 2029.	4.60%	\$ 6,231,186
<b>UND Foundation</b>		
2008 lease revenue bonds, variable semi-annual principal and interest installments, maturity December 2018, interest rate fixed.	4.15%	\$ 2,178,700
2002 tax-exempt lease revenue bonds, variable semi-annual principal and interest installments, maturity June 2027, interest rate fixed.	2.5% - 5.13%	\$ 7,410,000
2003 tax-exempt lease revenue bonds, semi-annual interest installments, optional semi-annual principal installments of \$100,000, maturity June 2018, interest rate adjusts semi-annually to 121 basis points over the 6-month LIBOR rate.	3.7%	\$ 3,605,000
<b>Total Component Unit Bonds Payable</b>		<b>\$ 78,600,949</b>

## NOTES TO THE FINANCIAL STATEMENTS

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### Scheduled Maturities of Bonds Payable – Major Component Units

Fiscal Year	Principal	Interest	Total
2009	\$ 2,870,432	\$ 3,271,005	\$ 6,141,437
2010	2,841,345	3,126,835	5,968,180
2011	3,306,439	3,005,818	6,312,257
2012	3,073,816	2,870,751	5,944,567
2013	2,770,127	2,762,021	5,532,148
2014 - 2018	17,615,808	12,169,468	29,785,276
2019 - 2023	15,162,318	8,488,224	23,650,542
2024 - 2028	24,330,977	5,142,018	29,472,995
2029 - 2033	6,308,473	829,792	7,138,265
2034 - 2038	321,214	72,381	393,595
	<u>\$78,600,949</u>	<u>\$41,738,313</u>	<u>\$120,339,262</u>

### Nonrecourse Lease Revenue Bonds

In July 2000, the UND Aerospace Foundation issued \$13,770,000 of nonrecourse lease revenue bonds, which bear interest at 4.375 to 5 percent with various maturities beginning September 1, 2000 and continuing through September 2010. The proceeds of the bonds were principally used to refinance UND leases for its facilities and equipment. In conjunction with the issuance of these bonds, the UND Foundation entered into a lease agreement as lessor with UND for the facilities and equipment. Payments under the lease agreement match the principal and interest payments due on the bonds and will be paid by UND directly to the bond trustee as a result of the UND Foundation assigning all of its rights and interest as lessor to the bond trustee. The UND Aerospace Foundation, as issuer, does not have any obligation to pay the bonds beyond the rents paid by UND to the bond trustee under the lease agreement and has also granted the trustee a security interest in the related leased equipment. In the event of UND's default under the lease agreement (as defined), the bondholders do not have any rights to collect from the UND Foundation other than the proceeds from the sale or release of the leased equipment. The outstanding balance of the bonds on June 30, 2008 is \$2,205,000. The lease, lease assignment, and bond agreements provide for the legal right of offset, permitting the related assets and debt to be netted for financial reporting purposes.

### NOTE 9 – NOTES PAYABLE

#### PRIMARY INSTITUTION

##### Energy Performance Contracts

Several campuses have individual notes payable to GE Capital Public Finance, Inc., for energy improvements through a performance contract. Details of the notes are as follows:

## NOTES TO THE FINANCIAL STATEMENTS

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### Scheduled Maturities of Notes Payable – Primary Institution

Institution	Original Balance	Maturity Date	Interest Rate	Outstanding Balance June 30, 2008
Bismarck State College	\$ 1,492,000	July 2012	5.01%	\$ 895,859
Dickinson State University	2,256,164	July 2013	4.09%	1,454,253
Lake Region State College	932,726	February 2015	4.41%	645,546
Mayville State University	1,193,632	August 2012	5.25%	602,601
Minot State University	1,158,054	December 2012	4.22%	584,001
Minot State University - Bottineau	378,067	August 2013	4.27%	218,039
North Dakota State College of Science	1,915,887	November 2009	5.52%	611,392
Valley City State University	1,065,688	November 2011	4.87%	562,800
<b>Total Notes Payable</b>	<b>\$ 10,392,218</b>			<b>\$ 5,574,491</b>

Fiscal Year	Principal	Interest	Total
2009	\$ 1,098,853	\$ 233,923	\$ 1,332,776
2010	1,183,032	181,572	1,364,604
2011	1,065,063	126,101	1,191,164
2012	1,023,072	79,205	1,102,277
2013	769,361	34,317	803,678
2014 - 2018	435,110	11,740	446,850
	<b>\$ 5,574,491</b>	<b>\$ 666,858</b>	<b>\$ 6,241,349</b>

### MAJOR COMPONENT UNITS

#### Financing Structure for the Commuter Regional Jet Simulator – UND Aerospace Foundation

On July 14, 2007 the UND Aerospace Foundation entered into an agreement with Alerus Financial to modify two previously issued term loans, which were refinanced into one loan referred to as the CRJ Term Loan. This loan is represented by a CRJ Term note in the amount of \$1.8 million. Proceeds of this note will be used exclusively to refinance the existing Alerus notes mentioned above, with an advance of \$200,000 for upgrades to a CRJ simulator. Additionally, Alerus granted an interest rate change to the Foundation's revolving line of credit for aircraft and simulator purchases up to \$1.5 million. The Foundation has additional borrowing capacity of \$718,577 on the Alerus simulator note payable as of June 30, 2008. Certain assets (primarily aircraft and CRJ simulators) have been pledged as security for the above borrowings.

## NOTES TO THE FINANCIAL STATEMENTS

Detail of notes payable for the component units is as follows:

	June 30, 2008		
	Interest Rate	Installments	Balance Outstanding
<b>DSU Foundation</b>			
American Bankcenter mortgage payable, monthly principal and interest installments, maturity April 2010, interest rate fixed	5.625%	\$2,194	\$ 326,810
American Bankcenter mortgage payable, monthly principal and interest installments, maturity April 2010, interest rate fixed	6.785%	\$1,050	\$ 141,463
Dacotah Bank mortgage payable, monthly principal and interest installments, maturity July 2012, interest rate fixed	6.45%	743	\$ 97,682
Dacotah Bank mortgage payable, monthly principal and interest installments, maturity January 2011, interest rate fixed	6.45%	\$427	\$ 44,144
<b>NDSU Development Foundation</b>			
Note payable, semi-annual principal and interest installments, maturity January 2013, interest rate fixed	2.77%	\$1,800	\$ 16,700
Note payable, semi-annual principal and interest installments, maturity January 2013, interest rate fixed	6.86%	\$26,910	\$ 2,155,105
<b>NDSU Research &amp; Tech Park, Inc.</b>			
Growth Initiative Fund non-interest bearing note, due in annual installments with a maturity of August 2009.	-	Various	\$ 389,500
North Dakota Development Fund note payable, lump sum due August 2007.	3.0%	-	\$ 250,000
North Dakota Development Fund note payable, lump sum due December 2016.	3.0%	-	\$ 350,000
U.S. Bank note payable, monthly principal and interest installments, maturity October 2009, interest rate fixed	7.5%	\$8,722	\$ 132,840
<b>UND Aerospace Foundation</b>			
Alerus commuter regional jet simulator down payment note payable A, monthly principal and interest payments, maturity August 2012, variable interest rate.	4.758%	\$26,700	\$ 1,370,961
Community Bank Mustang jet note payable. Fixed interest rate, maturity April, 2013.	5.52%	\$10,925	\$ 989,633
Bremer air traffic control tower simulator note payable, monthly principal and interest payments, balance due August 2008, interest based on 230 basis points over 30-day LIBOR average	4.76%	\$20,080	\$ 43,119
Alerus aircraft and simulators note payable, monthly principal and interest installments, balance due August 2009, interest based on 275 basis points over LIBOR	4.758%	1.2% of principal, plus interest	\$ 781,423
Sovereign Bank note payable, due in monthly principal and interest payments of \$8,205, balance due December 2015, interest rate fixed	5.998%	1.2% of principal, plus interest	\$ 793,492
<b>UND Foundation</b>			
Wells Fargo Brokerage Services note payable, monthly interest, principal due January 2012, variable interest rate		interest only	\$ 500,000
<b>Total Component Unit Notes Payable</b>			<b>\$ 8,382,872</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Scheduled Maturities of Notes Payable – Major Component Units

Fiscal Year	Principal	Interest	Total
2009	\$ 2,024,092	\$ 429,941	\$ 2,454,033
2010	2,019,679	342,984	2,362,663
2011	805,372	254,644	1,060,016
2012	596,922	212,496	809,418
2013	1,035,494	159,586	1,195,080
2014 - 2018	1,901,313	305,732	2,207,045
	<u>\$ 8,382,872</u>	<u>\$ 1,705,383</u>	<u>\$ 10,088,255</u>

### NOTE 10 – CAPITAL LEASES

#### PRIMARY INSTITUTION

The institutions lease various types of capital assets under capital lease agreements. Capital leases give rise to property rights and lease obligations and therefore, the assets under lease are recorded as assets of the institution and the lease obligation is recognized as a liability. The leases have varying interest rates with maturities to 2043.

Carrying Value of Assets Held Under Capital Leases		
	Carrying Value	Accumulated Depreciation
Land improvements/infrastructure	\$ 1,160,015	\$ 703,600
Buildings	37,730,606	5,513,054
Furniture, fixtures, and equipment	<u>26,355,082</u>	<u>11,144,355</u>
Total	<u>\$ 65,245,703</u>	<u>\$ 17,361,009</u>

### Scheduled Maturities of Capital Leases – Primary Institution

Fiscal Year	Principal	Interest	Total
2009	\$ 4,772,619	\$ 2,747,348	\$ 7,519,967
2010	4,594,146	2,559,984	7,154,130
2011	4,244,728	2,294,581	6,539,309
2012	3,474,788	1,640,074	5,114,862
2013	3,045,040	1,618,510	4,663,550
2014 - 2018	13,158,601	5,868,138	19,026,739
2019 - 2023	7,010,248	3,306,896	10,317,144
2024 - 2028	4,822,262	1,853,998	6,676,260
2029 - 2033	2,362,373	896,088	3,258,461
2034 - 2038	1,362,424	459,016	1,821,440
2039 - 2043	<u>992,048</u>	<u>100,817</u>	<u>1,092,865</u>
	<u>\$ 49,839,277</u>	<u>\$ 23,345,450</u>	<u>\$ 73,184,727</u>

## NOTES TO THE FINANCIAL STATEMENTS

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### Scheduled Maturities of Capital Leases – Component Units

Fiscal Year	Principal	Interest	Total
2009	\$ 85,557	\$ 94,354	\$ 179,911
2010	82,421	87,559	169,980
2011	42,805	83,534	126,339
2012	44,845	81,494	126,339
2013	46,982	79,357	126,339
2014 - 2018	270,706	360,991	631,697
2019 - 2023	341,656	290,041	631,697
2024 - 2028	431,201	200,496	631,697
2029 - 2033	544,215	87,482	631,697
2034 - 2038	61,717	1,453	63,170
	<u>\$ 1,952,105</u>	<u>\$ 1,366,761</u>	<u>\$ 3,318,866</u>

### NOTE 11 – OTHER LONG-TERM LIABILITIES

#### SPECIAL ASSESSMENTS

The institutions and major component units receive special assessments from the city or county for improvements made to roads and infrastructure owned by the city or county that are adjacent to or on campus property.

#### Scheduled Maturities of Special Assessments

PRIMARY INSTITUTION			
Fiscal Year	Principal	Interest	Total
2009	\$ 167,558	\$ 91,191	\$ 258,749
2010	163,791	82,075	245,866
2011	144,371	72,801	217,172
2012	136,630	64,493	201,123
2013	135,829	56,531	192,360
2014 - 2018	519,464	179,507	698,971
2019 - 2023	254,665	64,832	319,497
2024 - 2028	85,310	24,027	109,337
2029 - 2033	33,194	3,406	36,600
	<u>\$ 1,640,812</u>	<u>\$ 638,863</u>	<u>\$ 2,279,675</u>

## NOTES TO THE FINANCIAL STATEMENTS

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<b>Fiscal Year</b>	<b>COMPONENT UNITS</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 26,321	\$ 32,000	\$ 58,321
2010	35,000	31,000	66,000
2011	36,000	30,000	66,000
2012	37,000	29,000	66,000
2013	38,000	28,000	66,000
2014 - 2018	358,241	102,000	460,241
	<b>\$ 530,562</b>	<b>\$ 252,000</b>	<b>\$ 782,562</b>

### Compensated Absences

The compensated absences liability of the institutions at June 30, 2008 consists of accumulated unpaid annual leave, compensatory time, payable portion of accumulated sick leave, personal holiday hours, and Saturday/legal holiday hours earned and vested. Compensated absences for employees at June 30, 2008 and 2007 totaled \$22,439,489 and \$22,241,641, respectively. Leave policies restrict the accumulation of unused vacation and thus limit the actual payments made to employees upon termination or retirement.

### NOTE 12 – RETIREMENT BENEFITS

The North Dakota University System participates in two major retirement systems: North Dakota Public Employees' Retirement System administered by the State of North Dakota and a privately administered retirement system: Teachers' Insurance Annuity Association and College Retirement Equity Fund. The following is a brief description of each plan:

#### **NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (NDPERS)**

##### **Description of Plan**

NDPERS is a cost-sharing, multiple-employer, defined benefit pension plan covering substantially all broadband employees of the University System. The plan provides retirement, disability and death benefits. If an active employee dies with less than five years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than five years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50 percent of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employees' normal retirement benefit calculated as if the employee were age 65 the day before the death occurred (or, effective August 1, 1995, monthly payments in an amount equal to the employee's accrued 100 percent joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death). If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25 percent of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled. Employees are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65), equal to 2 percent of their final average salary for each year of service. The plan permits early retirement at ages 55-64, with five or more years of service. A financial report

## NOTES TO THE FINANCIAL STATEMENTS

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that includes financial statements and the required supplementary information for NDPERS can be obtained by writing to NDPERS; 400 East Broadway, Suite 505; P.O. Box 1657; Bismarck, ND 58502.

### Funding Policy

NDPERS is funded by employee contributions (set by statute) of 4 percent of regular compensation. During the 1983-1985 biennium the State implemented the employer pickup provision of the IRS code whereby the employer makes all or a portion of the required employee contributions. The State is paying the full employee contribution. Employer contributions of 4.12 percent of covered compensation are set by statute. The required contributions are determined using an entry age normal actuarial funding method.

The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code, changes to the plan documents must be approved by the legislature and Governor. The University System's required and actual contributions to NDPERS for the fiscal years ending June 30, 2008, 2007 and 2006 were \$5,976,542, \$5,724,615, and \$5,486,198, respectively.

### TIAA-CREF RETIREMENT PLAN

#### Description of Plan

This is a privately administered defined contribution retirement plan which provides individual retirement fund contracts for eligible employees as defined by the Board of Higher Education in its approved TIAA-CREF retirement resolution. All benefits vest immediately to the participant. The State Board of Higher Education has the authority for establishing or amending plan provision and establishing or amending contribution requirements. Further information can be obtained by writing to TIAA-CREF; Denver Regional Office; 1700 Broadway, Suite 770; Denver, Colorado 80290 or by calling 800-842-2009.

#### Funding Policy

The plan requires employee and employer contributions be based on a classification system and years of service based on the following schedule:

Employment Class	Years of Service	Contributions by the Participant	Contributions by the Institution
I and III	0 thru 10 over 10	1.5% 2.0%	9.5% 10.0%
II	0 thru 2 3 thru 10 over 10	0.5% 1.5% 2.0%	4.5% 9.5% 10.0%
IV	0	1.0%	9.0%
President/Chancellor (additional employer contribution)	0 thru 12 or less than 3	0.0%	8.33%*
	3 to less than 6	0.0%	4.0%
	6 yrs and over	0.0%	8.0%

\*A final contribution is made in the year the president terminates employment equal to the difference between total contributions made and the president's final annual salary in year of termination of employment.

Plan contributions are made on a tax-deferred basis in accordance with Section 414(h)(2) of the Internal Revenue Code. All contributions are applied as premiums to retirement annuity contracts owned by the participant. The North Dakota University System has no further liability once annual

## **NOTES TO THE FINANCIAL STATEMENTS**

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contributions are made. The University System contributed \$22,774,016 and \$21,503,188 to TIAA-CREF during the fiscal years ending June 30, 2008 and 2007, respectively.

### **NOTE 13 – POST-EMPLOYMENT BENEFITS**

#### **STATE GROUP HEALTH PLAN**

Members who receive retirement benefits from the Public Employees Retirement System may receive a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The benefits are set by statute and the plan is a cost-sharing multiple-employer defined benefit plan. The employer contribution for the Public Employees Retirement System is set by statute on an actuarially determined basis (projected unit actuarial cost method) at one percent of covered compensation.

There are approximately 635 retired University System employees receiving these benefits and 2,719 active employees with retiree health credit. The actuarially determined required employer contribution of \$736,173 for the year ended June 30, 2008 is one percent of the covered payroll. The University System's actual and required contributions for the fiscal years ending June 30, 2008, 2007 and 2006 were \$736,173, \$688,279 and \$675,672, respectively.

As of June 30, 2008 there was \$40.4 million in net assets available for benefits under the state retiree health insurance credit plan. The actuarially accrued liability was \$87.6 million and the underfunded actuarially accrued liability was \$45.1 million at June 30, 2008.

#### **TERMINATION BENEFITS**

##### **Early Retirement Agreements**

When early retirement is deemed to be in the mutual benefit of an employee and the University System, the Board has adopted Policy 703.1 on Early Retirement. This policy applies to tenured faculty, the chancellor, vice chancellors, and other system office professional staff, and presidents, executive deans, vice president, provosts, deans, and other officers responsible for a major unit of an institution who report directly to a president, vice president, provost, or executive dean who are members of TIAA-CREF, TFFR, or TIRF. During the fiscal year ended June 30, 2008, 13 employees elected early retirement.

Under the Tenured (Contract) Purchase Option, the employee is eligible for payment of up to 100 percent of the employee's final contract salary if the sum of the employee's age and total years of employment equals 70 or greater. Payments will be pursuant to the approved agreement, but cannot be made until at least 90 days after the date of Early Retirement Agreement. During the fiscal year ended June 30, 2008, 13 University System employees elected to participate in this option. Policy 703.1 also allows the early retirement agreements to retain the retiree on the applicable group health and life insurance plan. Payment by the institution of premiums is negotiable. Total cost to the institutions for these termination benefits will be \$276,066 over the next four years. Amounts payable to employees at June 30, 2008 for outstanding contract buyouts and future health and life premiums, adjusted for projected health insurance premium increases and discounted to the present were \$580,739, assuming health insurance premium increases of 5-10 percent and a discount rate of 2.45 percent.

##### **Severance Agreements**

In fiscal year 2008, institutions paid \$299,088 to ten employees under separate employment separation agreements and \$10,816 was payable under these agreement at June 30, 2008

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 14 – CONSTRUCTION COMMITMENTS AND FINANCING

The campuses have contracted for various construction projects as of June 30, 2008. Estimated costs To complete the various projects and the sources of anticipated funding are presented below:

Campus	Expended			Funding for Remaining Costs			
	Contracts Awarded	Through June 30, 2008	Total Cost To Complete	Federal Sources	State Sources	Institutional Funds	Other Sources
BSC	\$ 5,543,727	\$ 4,688,003	\$ 855,724	\$ -	\$ 341,350	\$ 514,374	\$ -
DSU	266,855	-	266,855	-	166,391	100,464	-
LRSC	75,723	49,680	26,043	-	26,043	-	-
MaSU	6,461,334	-	6,461,334	-	-	374,781	6,086,553
MiSU	843,337	512,330	331,007	-	331,007	-	-
MiSU-B	254,881	16,361	238,520	-	222,734	15,786	-
NDSCS	1,858,887	1,549,316	309,571	-	198,728	110,843	-
NDSU	45,648,116	30,563,294	15,084,822	698,161	2,995,341	-	11,391,320
UND	19,710,271	18,507,918	1,202,353	78,416	30,404	1,093,533	-
VCSU	2,200,000	1,180,812	1,019,188	-	1,019,188	-	-
WSC	822,007	43,120	778,887	-	778,887	-	-
Total	\$ 83,685,138	\$ 57,110,834	\$ 26,574,304	\$ 776,577	\$ 6,110,073	\$ 2,209,781	\$ 17,477,873

### NOTE 15 –COMPONENT UNIT TRANSACTIONS

#### MAJOR COMPONENT UNITS

##### **Bismarck State College and Bismarck State College Foundation**

On January 25, 2007, BSC and BSC Foundation entered into a 15-year lease agreement to facilitate the construction of a Mechanical Maintenance building. Under the agreement, BSC is responsible for payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility as set forth in the lease. The amount of the rent is tied to the \$1.4 million debt service retirement. Upon payment of all the bonds, BSC will have the option to purchase the premises for \$100.

On October 19, 2007, BSC and BSC Foundation entered into a 25-year lease agreement to facilitate the construction of the National Energy Center of Excellence building. Under the agreement, BSC is responsible for payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility as set forth in the lease. The amount of the rent is tied to the \$5.0 million debt service retirement. Upon payment of all the bonds, BSC will have the option to purchase the premises for \$100.

##### **Dickinson State University and Dickinson State University Foundation**

DSU provides personnel and other services to the foundation at no charge, as in-kind reimbursement for services provided by the foundation, including one-half salary and fringe benefits of foundation employees, payroll preparation services, postage, utilities and buildings and ground services. For the year ended June 30, 2008, DSU has valued these services at approximately \$123,000.

##### **North Dakota State University and NDSU Research and Technology Park, Inc.**

On December 30, 1999, NDSU through the State of North Dakota and the North Dakota State Board of Higher Education entered into a ground lease, whereby the NDSU Research & Technology Park, Inc. (component unit) leases 40 acres of land for \$1 per year for the next seventy-five years.

## **NOTES TO THE FINANCIAL STATEMENTS**

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On November 1, 2000, NDSU Research and Technology Park, Inc. (RTP) entered into a \$6.5 million lease agreement with the City of Fargo to finance the construction of laboratory and research facilities and all equipment and furnishings located on property owned by the city. The agreement assigned to NDSU all of RTP's obligations under the lease, including but not limited to the payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility as set forth in the lease. Upon payment of all the bonds, title to the facility will revert to RTP. On August 1, 2002, essentially the same legal and financial structure used to construct Research Building #1 was used to construct a second Research Building. The second lease agreement was for \$20,450,000.

The audited financial statements of RTP for fiscal year 2008 report these transactions as an operating lease and report the related capital assets and related debt as assets and debt of RTP. Since RTP is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for Research Buildings 1 and 2, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

NDSU and RTP have entered into an operating agreement, whereby NDSU leases Research Building #1 for an annual rent of \$628,943 and Research Building #2 for \$1,525,963 through July 2013, plus utilities and insurance. Total payments under these agreements in fiscal year 2008 were approximately \$2.2 million. These agreements are subject to funding and legislative appropriations. On July 1, 2002, NDSU and RTP entered into an agreement for cooperation and assistance between entities. The agreement automatically extends for one-year periods unless cancelled by either party to the agreement.

### **North Dakota State University and NDSU Development Foundation**

#### **NDSU Equine Center**

Effective January 1, 2003, NDSU and the NDSU Development Foundation entered into a ten-year lease agreement with an option for an additional ten year term to facilitate the construction of an Equine Science Center. Under the agreement, NDSU will pay rent to the NDSU Development Foundation for use of the premises. The amount of the rent is tied to the \$4.355 million debt service retirement plus necessary insurance and taxes incurred by the Development Foundation. NDSU paid the Development Foundation \$314,624 in fiscal year 2008 under this agreement.

The facility is included in long-term investments and the debt is included in long-term liabilities on the financial reports of the NDSU Development Foundation. NDSU has also recorded a capital asset and a capital lease payable of \$3,745,000 as of June 30, 2008. Since the Development Foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the Equine Center, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

#### **Fargodome Lease and Improvements**

In fiscal year 2006, the NDSU Development Foundation financed the construction and equipping of office space, locker rooms, meetings rooms, and related facilities in the Fargodome for use by NDSU through the sale of revenue bonds issued by Cass County. The Foundation has leased the space in the Fargodome from the City of Fargo and subleased the space, furniture, fixtures and equipment to NDSU. Under the agreement, NDSU will pay rent to the NDSU Development Foundation for use of the premises. The amount of the rent is tied to the \$3.5 million debt service retirement plus the Fargodome annual space rent and all costs incurred by the Development Foundation incident to the lease, less any

## **NOTES TO THE FINANCIAL STATEMENTS**

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contributions received by the Foundation for the project. NDSU paid the Development Foundation \$57,500 in fiscal year 2008 under this agreement.

The facility is included in long-term investments and the debt is included in long-term liabilities on the financial reports of the NDSU Development Foundation. NDSU has also recorded a capital asset and a capital lease payable of \$3,077,736 as of June 30, 2008. Since the Development Foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the Fargodome improvements, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

### **NDSU Downtown Campus**

The former Northern School Supply building was donated to the NDSU Development Foundation by NDSU alum in December of 2001. During fiscal year 2003 and 2004, the NDSU Development Foundation renovated the building with the intent to lease the facility to NDSU beginning fall 2004. NDSU entered into an agreement with 650 NP Avenue, LLC and Kilbourne Design Group, LLC to lease the property for \$49,583 per month, through August 12, 2011, with an option to renew for two five-year periods. During fiscal year 2005, the foundation transferred nearly the entire ownership in 650 NP Avenue, LLC and Kilbourne Design Group, LLC; therefore, they are no longer consolidated in the financial statements of the foundation. When the sublease with NDSU expires, the intent is to transfer the property back to the foundation and a new lease between the foundation and NDSU will be negotiated.

In fiscal year 2003 and 2004, the facility was reported on the financial statements of the NDSU Development Foundation as construction in progress and a short-term liability (for the construction loan). No asset or liability is reported in fiscal year 2005 or 2006 due to the transfer of ownership. The tax credits along with the deduction for donations bring the net cost to \$5.6 million, which is shown as a capital asset and capital lease liability on the books and financial statements of NDSU. The lease payments are recorded as interest only by NDSU until fiscal 2011, when the property is transferred back to the Development Foundation and lease revenue bonds will be issued to finance the acquisition.

### **Aircraft**

Effective June 28, 2007, NDSU and the NDSU Development Foundation entered into a \$2,348,000, ten-year, lease agreement for the purchase of an aircraft. Under the agreement, NDSU will pay rent to the NDSU Development Foundation for use of the aircraft. The amount of the rent is equal to the amount of the principal and interest payments on the loan, for the life of the loan. The University is responsible for all costs incurred in operation and maintenance of the aircraft. Upon completion of the loan payments, ownership of the aircraft will be transferred to NDSU. Since the Development Foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the leased aircraft, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

### **Barry Hall Business Building and Klai Hall Architecture Building**

Effective November 28, 2007, NDSU and the NDSU Development Foundation entered into lease agreements for two buildings in downtown Fargo, formerly known as the "Pioneer Mutual Building" and "Lincoln Mutual building". The Foundation financed the construction of the Barry Hall business building and Klai Hall architecture building projects through the sale of \$18.52 million of 20-year University Facilities Revenue Bonds issue by the City of Fargo, North Dakota. The City has loaned the bond proceeds to the Foundation for payments equal to the sum of the semi-annual interest payments and installments of varying principal amounts on the variable rate bonds and the semi-annual principal and

## **NOTES TO THE FINANCIAL STATEMENTS**

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interest payments on the fixed-rate bonds. The principal payments on the variable rate bonds will be funded from payments on donor pledges restricted for the project. Under the terms of the loan, the Foundation is responsible for the real estate taxes, insurance, repairs and maintenance, and other costs incident to ownership of the property. The property is included with property in the financial statements and the bonds have been recorded as a direct obligation of the Foundation. Ownership of the property will transfer to NDSU when the bonds are repaid in full. The bonds are guaranteed by the Foundation. This property is leased to NDSU for rental equal to the sum of the semi-annual interest only payments on the variable term bonds plus the semi-annual principal and interest payments on the fixed-rate bonds for the term of the bonds, plus all the costs incurred by the Foundation incident to ownership of the property. NDSU has an option to acquire the property upon full payment of the bonds. The bonds payable have a balance of \$16,843,383 at June 30, 2008.

### **Other Transactions**

NDSU also has agreements in place with the Foundation for maintenance of the University's alumni records, for use and insurance on certain land and buildings and for lease of a vehicle. Amounts paid under these agreements in fiscal year 2008 were \$726,925. In addition, the Development Foundation may contract with NDSU for materials and personnel in the service and utility areas and will reimburse NDSU based on separate agreements.

### **University of North Dakota and UND Aerospace Foundation**

The Aerospace Foundation reimbursed UND for salaries, building rent, aircraft rental, and goods and services under an operating agreement aggregating approximately \$4.5 million in fiscal 2008. This operating agreement has no specific term and is intended to memorialize various operating agreements, rate structures, duties, and obligations each party has to the other. UND reimbursed the foundation for air service and hangar, CRJ, 360-degree tower and aircraft rental of \$1.2 million. These expense reimbursements represent actual costs incurred. In addition, the Aerospace Foundation may contract with UND for materials and personnel in the service and utility areas and will reimburse UND based on separate arrangements. As of June 30, 2008, the foundation has recorded accounts payable to UND of \$328,144 for reimbursable costs and services under these arrangements.

The Aerospace Foundation entered into a sublease with UND to lease the aircraft storage hangar/ground support equipment facility. The lease term is for 20 years, commencing on July 7, 2003 until July 6, 2023. For the first 15 years of the sublease, UND will pay the foundation monthly minimum payments of \$12,672 beginning on October 1, 2003, subject to actual cost adjustments. At the end of the 15 years, rent will be adjusted based upon an interest rate adjustment or a refinancing of the debt incurred by the foundation in the construction of the hangar. The audited financial statements of the foundation report the capital assets and related debt for this lease. Since the foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for this transaction, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

### **University of North Dakota and RE Arena, Inc.**

RE Arena, Inc. manages, operates and maintains an arena known as the Ralph Englestad Arena, which was constructed in 2001 for the benefit of UND athletics. On July 1, 2004, UND and RE Arena, Inc., entered into a usage agreement with regards to the arena that sets forth facility usage, fees and services, and net income disposition. In accordance with this agreement, UND will control all ticket revenue from UND athletic events held in the arena, UND and RE Arena, Inc. will jointly utilize UND marketing staff, and UND agrees to pay RE Arena, Inc., a stated amount of the ticket revenue from

## **NOTES TO THE FINANCIAL STATEMENTS**

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hockey, football, and men's and women's basketball events.

Revenue and expenses from all other UND events held at the arena will be negotiated on an event-by-event basis. Per this agreement, UND paid approximately \$1.86 million to RE Arena, Inc., in fiscal year 2008 for event ticket revenue. Also per this agreement, RE Arena, Inc., agrees to pay a stated amount of athletic marketing revenue and net income to UND. Accordingly, RE Arena, Inc. paid UND \$395,391 in marketing revenue in fiscal year 2008. Additionally, under the agreement, RE Arena, Inc. will annually fund a reserve for extraordinary repairs, maintenance and building improvements in an amount up to \$350,000. And, on an annual basis, RE Arena, Inc. will remit to UND the net income after adding back depreciation and amortization, the funded reserve and capital expenditures for the fiscal year. RE Arena, Inc. paid UND \$350,000 under this agreement in fiscal year 2008.

In addition, RE Arena, Inc. may contract with UND for materials and personnel in the service and utility areas and will reimburse UND based on separate agreements. As of June 30, 2008, RE Arena, Inc. has a payable to UND of \$342,066 for these expenditures.

### **University of North Dakota and University of North Dakota Foundation**

The University of North Dakota Foundation issued through Wells Fargo Brokerage Services, LLC, tax-exempt lease revenue bonds on October 24, 2003 of \$4,400,000 to finance the land purchase and construction of the Minot Family Practice Center. The center is a component of the School of Medicine & Health Sciences at UND. Interest only is due on a semi-annual basis at a variable rate of interest with a maturity date of December 15, 2018. The interest rate is 4.15 percent at June 30, 2008. The foundation may pay down principal in increments of \$100,000 on interest payment dates without penalty. Principal balance outstanding at June 30, 2008 is \$3,605,000. A receivable from UND and the bond payable is included on the financial reports of the foundation and UND has recorded a capital asset and a capital lease payable as of June 30, 2008.

On July 24, 2002, UND Foundation issued lease revenue bonds of \$8,595,000 on behalf of UND to, i) finance the construction of an office building for EERC, ii) renovate the current EERC building, iii) finance capitalized interest, and iv) pay cost of issuance of the bonds. UND and UND Foundation also entered into a lease agreement on July 1, 2002, whereby the foundation leases certain property to UND and UND will pay the foundation basic rents which will be sufficient to cover principal and interest on the lease revenue bonds when due. The bonds bear an interest rate of 2 to 5.13 percent and mature in 2027. The lease revenue bond has a balance of \$7,410,000 at June 30, 2008. The foundation's financial statements include this transaction as a receivable from UND and a long-term liability. UND's financial statements include the capitalized asset and a long-term liability due to UND Foundation.

UND leases office space to the UND Foundation at a cost of \$1 per year and provides some administrative services, computer services, utilities and maintenance at no cost as a partial in-kind reimbursement for services rendered by the Foundation. Lease on the office, dated November 1, 1979, has a remaining term of one year. At June 30, 2008, due to timing of receipts and payments, the UND Foundation recorded a payable of \$342,066 to UND.

### **NON-MAJOR COMPONENT UNITS**

#### **North Dakota State University and North Dakota State University Research Foundation**

The foundation disburses 30 percent of net research fees and royalties from patents and other intellectual property or know-how to the inventor as required by state law; the remaining 70 percent is shared by NDSU and the foundation based on negotiated arrangements. Based on these agreements,

## NOTES TO THE FINANCIAL STATEMENTS

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\$585,369 in research fees and royalties were paid to NDSU from the foundation during the year ended June 30, 2008. Additionally, the foundation reimbursed NDSU \$157,201 for salaries for services provided by NDSU employees and \$5,564 for rent of office space.

### Valley City State University and Valley City State University Foundation

The foundation has a memorandum of Agreement with VCSU for administrative services. Under this agreement, the foundation paid VCSU approximately \$103,276 during fiscal year 2008.

### NOTE 16 – RELATED AND AFFILIATED ORGANIZATIONS

The related and affiliated organizations are separate North Dakota nonprofit corporations whose sole functions are to provide financial and other assistance to the institutions. The organizations conduct fundraising activities and receive moneys and pledges for institutionally sponsored programs. As such, the institutions neither display nor disclose pledges. The financial activity of the organizations is not reflected in the accompanying financial statements. The assets, revenues, and program service expenditures for each organization and the free services each institution provides as of June 30, 2008 are as follows:

	<b>Fiscal Year End<sup>1</sup></b>	<b>Assets</b>	<b>Revenues</b>	<b>Program Service Expenditures</b>	<b>Services Provided<sup>2</sup></b>
<u>BSC</u>					
National Alumni Association	Jun. 30	\$127,919	\$45,953	\$16,329	None
<u>DSU</u>					
The Blue Hawk Booster Club	Dec. 31	\$59,242	\$57,032	\$30,000	None
<u>MaSU</u>					
Mutual Aid Corporation	Dec. 31	\$256,365	\$35,634	\$0	A, J
<u>MiSU</u>					
Alumni Association Inc.	Jun. 30	\$57,416	\$206,492	\$176,838	A, J, S, U
Beaver Boosters, Inc.	Jun. 30	\$52,870	\$770,088	\$161,848	None
<u>NDSU</u>					
North Dakota 4-H Foundation	Aug. 31	\$1,202,417	\$238,547	\$113,710	A, S
Team Makers Club, Inc.	Dec. 31	\$1,989,853	\$1,895,050	\$1,961,000	A, S
<u>UND</u>					
Center for Innovation Foundation	Dec. 31	\$8,090,441	\$1,013,117	\$562,618	None
EERC Foundation	Jun. 30	\$259,482	\$11,847	\$53,541	J, S, U
The Fellows	Jun. 30	\$3,420,497	-\$140,360	\$166,160	None
Law School Foundation	Jun. 30	\$92,717	\$3,579	\$20,128	None
UND Research Foundation	Jun. 30, 2007	\$2,774,426	\$4,311,746	\$0	None
<u>WSC</u>					
Teton Booster Club	Jun. 30, 2007	\$48,864	\$106,546	\$63,200	None

<sup>1</sup> Fiscal year is 2008, unless otherwise noted.

<sup>2</sup> Services Provided:

A= Accounting/Secretarial

J = Janitorial

S = Space

U = Utilities

### NOTE 17 – ON-BEHALF PAYMENTS

On-behalf payments for fringe benefits and salaries are direct payments made by one entity to a third party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. The amount of on-behalf payments for fringe benefits and salaries for fiscal year ended June

## NOTES TO THE FINANCIAL STATEMENTS

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30, 2008 is \$59,437. There were no on-behalf payments made as contributions to a pension plan for which the System is not legally responsible.

### NOTE 18 – FUNCTIONAL EXPENSE CLASSIFICATION

The System reports operating expenses using the “natural classification” on the Statement of Revenues, Expenses and Changes in Net Assets. Operating expenses for the year ending June 30, 2008, using the “functional classification” are presented below:

<b>Operating Expenses</b>	
Instruction	\$ 258,782,575
Academic Support	58,147,036
Student Services	36,807,039
Institutional Support	78,002,026
Physical Plant	54,945,051
Scholarships and Fellowships	25,455,768
Auxiliary Enterprises	100,037,288
Public Service	44,863,037
Research	123,620,132
Depreciation	41,552,087
<b>Total</b>	<b><u>\$ 822,212,039</u></b>

### NOTE 19 – OPERATING LEASES

The campuses are obligated under certain leases for equipment, vehicles and facility rental, which are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the resulting expenditures are recognized as incurred. Lease expenditures for the year ended June 30, 2008, amounted to \$3.7 million.

Future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2008, are as follows:

<b>Fiscal Year</b>	<b>Future Minimum Lease Payments</b>
2009	\$ 1,924,530
2010	1,032,955
2011	981,382
2012	833,929
2013	520,231
2014 - 2018	1,562,582
2019 - 2023	592,466
2024 - 2028	262,500
2029 - 2033	164,125
	<b><u>\$ 7,874,700</u></b>

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **NOTE 20 – CONTINGENCIES**

Amounts received and expended by the University System under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the University System.

In the normal course of its activities, the institutions of the University System are party to various legal actions. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is remote, the outcome of the legal proceedings and claims is not expected to have a material effect on the financial position of the University System. Therefore, an estimated liability has not been recorded.

### **NOTE 21 – RAIN EVENT AND FLOOD DAMAGES**

#### **NORTH DAKOTA STATE UNIVERSITY**

With 7.7 inches of rain on June 19, 2000, North Dakota State University suffered extensive water damage to infrastructure, buildings, equipment, and furnishings. As of June 30, 2008, NDSU has expended \$19,033,766 in recovery costs, which were funded from FEMA (\$14,384,794), insurance (\$2,350,000) and state deficiency appropriations (\$1,723,830). In October 2008, the state Board of Higher Education approved a state deficiency appropriation request of the 2009 legislature to fund the remaining unreimbursed costs of \$575,142.

#### **UNIVERSITY OF NORTH DAKOTA**

Beginning with a sleet storm on April 6, 1997, and followed by the Flood of 1997, the University of North Dakota suffered extensive damage to infrastructure, buildings, equipment, and furnishings. On August 4, 1997, the Emergency Commission under the provisions of NDCC 54-16-13, approved the University's request to obtain a \$12,000,000 line of credit from the Bank of North Dakota for purposes of expediting the repair of buildings and infrastructure, as well as the replacement of equipment and furnishings lost in the disaster. The Emergency Commission has extended borrowing authority each biennium since. On March 9, 1998, the Bank of North Dakota, acting on direction from the Emergency Commission, approved two additional categories of draw availability on the \$12 million Letter of Credit.

As of June 30, 2008, UND has expended approximately \$60.9 million in flood recovery costs, \$2.7 million of which was covered by UND. In addition, UND recovered \$6.3 million from insurance, received \$39.4 million from FEMA, and received \$10.9 million in deficiency appropriations. The campus anticipates recovering the remaining costs of \$1.6 million from FEMA or a deficiency appropriation at a future date.

#### **BANK OF NORTH DAKOTA LINE OF CREDIT ACTIVITY**

At June 30, 2008, UND had a balance outstanding on the rain event and flood lines of credit of \$1,479,887 compared to \$1,515,259 at June 30, 2007. The rate of interest changes on a quarterly basis. At June 30, 2008 the rate was 3.96 percent.

### **NOTE 22 – RISK MANAGEMENT**

The University System is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are

## **NOTES TO THE FINANCIAL STATEMENTS**

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funds/pools established by the state for risk management issues.

### **RISK MANAGEMENT FUND**

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies, employees and the University System. All state agencies participate in the RMF and each fund's contribution was determined using a projected cost allocation approach. The system obtains most of its insurance through the RMF.

### **NORTH DAKOTA FIRE AND TORNADO AND STATE BONDING FUND**

The University System also participates in the North Dakota Fire and Tornado Fund and State Bonding Fund. The University System pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is determined in consultation with the Fire and Tornado Fund. The State Bonding Fund currently provides the University System with blanket fidelity bond coverage in the amount of \$750,000 to \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

### **NORTH DAKOTA WORKFORCE SAFETY AND INSURANCE**

The University System participates in the North Dakota Workforce Safety and Insurance, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and is a no fault insurance system. It covers the state's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims from these risks have not exceeded insurance coverage in any of the past three fiscal years except for rain event and flood damages at NDSU and UND as discussed in Note 21.

### **NOTE 23 – ASBESTOS SETTLEMENT**

During fiscal year 1999, the University System settled an asbestos lawsuit against W.R. Grace & Co. The Chancellor has designated the dollars for asbestos related projects at the campuses. The designated amount for NDSU and UND at June 30, 2008 is \$446,419 and \$1,232,682, respectively.

### **NOTE 24 – DEFICIT NET ASSET BALANCES > \$100,000**

As of June 30, 2008 the Universities listed below had the following reportable net asset balance deficits greater than \$100,000.

## NOTES TO THE FINANCIAL STATEMENTS

Institution	Fund	Description	Deficit Balance
Mayville State University	10700	Local Athletics	\$ 313,675
		Total MaSU	\$ 313,675
North Dakota State University	44500	Interest on BND LOC Advance	\$ 575,142
	18541	Interfund Borrowing	<u>687,135</u>
		Total NDSU	\$ 1,262,277
North Dakota State College of Science	21216	Workforce Training Five	\$ 135,593
		Total NDSCS	\$ 135,593
University of North Dakota	22422	Line Services	\$ 111,900
	22204	EERC Facilities/Admin.	186,034
	21220	Bismarck Family Med Center	\$ 1,160,880
	22281	BND Flood Line of Credit	1,588,953
	22364	EERC Cost of Litigation	<u>1,937,385</u>
		Total UND	\$ 4,985,152
Total University System			<u><u>\$ 6,696,697</u></u>

### **Mayville State University**

Fund 10700 – The athletic fund has a negative balance of \$313,675. The Board approved a plan on June 30, 2006, which was developed by the campus and an external workgroup for reduction of the deficit over the next three years.

### **North Dakota State University**

Fund 44550 – Interest on Bank of North Dakota Line of Credit (LOC) Advance had a deficit balance of \$575,142 at June 30, 2008 for interest on the LOC related to the 2000 flood. NDSU plans to seek a state deficiency appropriation from the 2009 legislature to fund these costs. This will be the final deficiency appropriation needed on the flood project and will close out the flood funds.

Fund 18541 – Interfund Borrowing. This fund has a deficit of \$687,135 due to the early payoff of special assessments for the 17<sup>th</sup> Ave project. Board approval was requested and received for the early payoff and deficit repayment plan. The repayment will come over 4 years from the 9th Ave. property revenues.

### **North Dakota State College of Science**

Fund 21216 – Work force Training Five – This deficit balance was related to costs of a workforce training effort. Revenue was not sufficient to cover the costs of a mobile training lab. This form of training has been discontinued and NDSCS is in the process of disposing of the equipment in order to recover the initial investment.

### **University of North Dakota**

Fund 22422 – This fund is a recharge center; the deficit balance at June 30, 2008 was \$111,900. The deficits will be recovered through adjustment to the rates.

Fund 22204 – This fund has a deficit balance of \$186,034 at June 30, 2008. This fund covers all facility and administrative (F&A) costs for operation of the EERC. The majority of this deficit, \$118,811 was the result of intellectual property related expenses that were originally anticipated and budgeted for in FY09. The remaining difference of \$67,222 is less than 1% of the total F&A budget for EERC for FY08. The entire deficit will be eliminated by June 30, 2009 using FY09 revenues.

## **NOTES TO THE FINANCIAL STATEMENTS**

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Fund 21220 – The Bismarck Center for Family Medicine net equity deficit as of June 30, 2008 was \$52,850 before an audit adjustment to increase the accounts receivable allowance by \$1,108,030 was made to the June 30, 2008 financial statements in December 2008. The adjustment relates to a \$1,775,973 accounts receivable balance due to UND from Bismarck MedCenter One Hospital. The audit adjustment was made after Medicare made a provider audit adjustment to Bismarck MedCenter One Hospital financial statements. This Medicare provider audit adjustment may result in decreased graduate medical education reimbursements due to UND. UND disputes the Medicare provider adjustment, but the end result is a 2008 fiscal year net equity deficit of \$1,160,880. The Bismarck hospitals are in the midst of a legal dispute with the Medicare program over graduate medical reimbursements for the Bismarck Center for Family Medicine. It is hoped that the legal dispute will be settled by the close of FY09.

Fund 22281 – BND Flood Line of Credit. The deficit balance of \$1,588,953 includes the balance owed to the Bank of North Dakota on the line of credit for the Flood of 1997 and interest expense paid on the line of credit that exceeded the deficiency appropriation. The line of credit covers restoration expenditures incurred by UND that have not yet been reimbursed by FEMA. A deficiency appropriation request (2005-07) for UND for costs associated with the 1997 flood was funded in SB2023 in the amount of \$2,069,727. An additional \$4.18 million deficiency appropriation request is possible pending resolution of FEMA appeals.

Fund 22364 - EERC Costs of Litigation had a deficit balance of \$1,937,385 at June 30, 2008. This balance represents the aggregate of costs incurred relative to ongoing litigation. As each case is brought to closure, balances will be brought to zero using funds resulting from the settlement. Additionally, monthly payments are made by EERC to reduce the deficit. The maximum time needed to cover the deficit is just over nine years. The intent is to bring the deficit to zero as quickly as possible.

## **NOTE 25 – SUBSEQUENT EVENTS**

There has been significant volatility in the financial markets since year end that could result in material changes in the value of the investment security holdings of the campuses and/or their component units.

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2008**

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**COMBINING STATEMENT OF NET ASSETS**

	North Dakota University System Office	Bismarck State College	Dickinson State University	Lake Region State College	Mayville State University	Minot State University	Minot State University Bottineau
<b>ASSETS</b>							
Current assets							
Cash and cash equivalents	\$ 153,377	\$ 4,409,481	\$ 3,102,787	\$ 3,092,802	\$ 1,642,647	\$ 14,202,867	\$ 660,364
Investments	-	2,690,712	8,655,000	-	88,000	6,621,400	-
Accounts receivable, net	151,677	667,744	331,355	345,255	286,474	782,840	137,232
Receivable from component units	-	342,824	16,002	-	10,864	-	-
Due from State General Fund	969,806	434,563	10,886	-	113,345	19,094	6,993
Grants & contracts receivables, net	-	1,081,565	147,971	278,814	356,308	1,991,807	97,239
Inventories	-	549,459	507,244	164,730	205,721	-	157,972
Notes receivable, net	-	98,474	205,824	87,062	125,471	283,209	43,999
Other assets	-	313,335	260,426	9,465	81,159	100,442	16,707
Total current assets	<b>1,274,860</b>	<b>10,588,157</b>	<b>13,237,495</b>	<b>3,978,128</b>	<b>2,909,989</b>	<b>24,001,659</b>	<b>1,120,506</b>
Noncurrent assets							
Restricted cash and cash equivalents	-	540,032	77,500	41,106	524	7,966	-
Restricted investments	-	435,288	-	105,000	-	589,275	67,591
Endowment investments	-	-	-	-	4,000	1,334,380	-
Notes receivable, net	-	442,399	915,900	393,356	556,007	2,375,629	258,568
Other long-term investments	-	-	-	-	-	-	-
Unamortized bond discount & cost of issuance	81,397	93,277	21,471	-	416	113,389	-
Other noncurrent assets	-	-	-	-	-	-	-
Capital assets, net	<b>12,830,950</b>	<b>28,776,624</b>	<b>21,081,153</b>	<b>4,065,976</b>	<b>10,579,267</b>	<b>44,260,466</b>	<b>4,513,216</b>
Total noncurrent assets	<b>12,912,347</b>	<b>30,287,620</b>	<b>22,096,024</b>	<b>4,605,438</b>	<b>11,140,214</b>	<b>48,681,105</b>	<b>4,839,375</b>
Total assets	<b>\$ 14,187,207</b>	<b>\$ 40,875,777</b>	<b>\$ 35,333,519</b>	<b>\$ 8,583,566</b>	<b>\$ 14,050,203</b>	<b>\$ 72,682,764</b>	<b>\$ 5,959,881</b>
<b>LIABILITIES</b>							
Current liabilities							
Accounts payable and accrued liabilities	\$ 739,591	\$ 2,227,474	\$ 479,034	\$ 175,534	\$ 443,943	\$ 986,436	\$ 51,174
Payable to component units	-	35,156	3,209	-	-	-	-
Accrued payroll	98,193	1,187,528	595,663	295,183	473,126	1,462,548	123,948
Deferred revenue	-	402,852	-	268,328	74,402	778,603	14,234
Deposits	-	247,525	258,609	221,772	203,187	497,757	39,740
Long-term liabilities--current portion	-	-	-	-	-	-	-
Due to Component Units	-	180,816	-	-	-	-	-
Due to Others	<b>1,513,614</b>	<b>473,773</b>	<b>313,029</b>	<b>160,478</b>	<b>675,377</b>	<b>850,724</b>	<b>68,470</b>
Total current liabilities	<b>2,351,398</b>	<b>4,755,124</b>	<b>1,649,544</b>	<b>1,121,295</b>	<b>1,870,035</b>	<b>4,576,068</b>	<b>297,566</b>
Noncurrent liabilities							
Advances from Bank of ND	-	-	-	-	-	-	-
Other noncurrent liabilities	197,178	81,493	-	-	-	23,725	4,265
Long-term liabilities							
Due to Component Units	-	6,154,184	-	-	-	-	-
Due to Others	<b>8,754,710</b>	<b>5,774,292</b>	<b>2,329,739</b>	<b>1,588,634</b>	<b>3,741,759</b>	<b>7,421,894</b>	<b>400,005</b>
Total noncurrent liabilities	<b>8,951,888</b>	<b>12,009,969</b>	<b>2,329,739</b>	<b>1,588,634</b>	<b>3,741,759</b>	<b>7,445,619</b>	<b>404,270</b>
Total liabilities	<b>\$ 11,303,286</b>	<b>\$ 16,765,093</b>	<b>\$ 3,979,283</b>	<b>\$ 2,709,929</b>	<b>\$ 5,611,794</b>	<b>\$ 12,021,687</b>	<b>\$ 701,836</b>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	\$ 2,809,301	\$ 16,844,956	\$ 18,923,889	\$ 2,610,430	\$ 6,470,106	\$ 36,779,883	\$ 4,191,178
Restricted for:							
Nonexpendable:							
Scholarships and fellowships	-	-	-	-	4,000	2,044,867	-
Expendable:							
Scholarships and fellowships	-	55,437	11,975	-	5,164	208,679	319
Research	-	-	-	150,388	-	4,491	-
Institutional	-	42,383	1,238,472	-	15,192	270,219	145,014
Loans	-	574,695	1,239,814	475,295	718,296	3,296,926	304,140
Capital projects	-	-	-	-	-	-	118,741
Debt service	-	486,560	90,990	82,305	103,232	598,673	63,067
Other	31,505	-	-	-	-	-	-
Unrestricted	<b>43,115</b>	<b>6,106,653</b>	<b>9,849,096</b>	<b>2,555,219</b>	<b>1,122,419</b>	<b>17,457,339</b>	<b>435,586</b>
Total net assets	<b>\$ 2,883,921</b>	<b>\$ 24,110,684</b>	<b>\$ 31,354,236</b>	<b>\$ 5,873,637</b>	<b>\$ 8,438,409</b>	<b>\$ 60,661,077</b>	<b>\$ 5,258,045</b>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
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COMBINING STATEMENT OF NET ASSETS - Continued

	North Dakota State College of Science	North Dakota State University	University of North Dakota	Valley City State University	Williston State College	Eliminations	Total
<b>ASSETS</b>							
Current assets							
Cash and cash equivalents	\$ 8,980,233	\$ 13,754,093	\$ 14,786,190	\$ 3,628,227	\$ 879,887	\$ 1,444,626	\$ 70,737,581
Investments	367,986	27,482,995	54,487,392	65,830	-	-	100,459,315
Accounts receivable, net	561,863	4,106,210	7,536,985	140,002	364,994	129,332	15,541,963
Receivable from component units	-	1,128,971	670,210	25,459	298,000	-	2,492,330
Due from State General Fund	94,858	12,464,773	300,971	251,218	-	-	14,666,507
Grants & contracts receivables, net	576,241	16,811,226	14,692,672	217,651	411,502	(205,715)	36,457,281
Inventories	447,683	2,185,811	2,860,499	158,153	175,998	-	7,413,270
Notes receivable, net	494,772	1,510,439	4,947,163	131,580	51,033	-	7,979,026
Other assets	43,554	482,286	672,584	39,796	46,477	-	2,066,231
Total current assets	<u>11,567,190</u>	<u>79,926,804</u>	<u>100,954,666</u>	<u>4,657,916</u>	<u>2,227,891</u>	<u>1,368,243</u>	<u>257,813,504</u>
Noncurrent assets							
Restricted cash and cash equivalents	-	785,443	3,745,756	123,557	-	-	5,321,884
Restricted investments	537,530	10,536,096	3,122,904	493,743	-	-	15,887,427
Endowment investments	-	361,739	10,581,962	435,440	52,200	-	12,769,721
Notes receivable, net	2,073,864	5,244,044	20,837,403	600,674	235,994	-	33,933,838
Other long-term investments	-	14,991,916	5,982,666	(6,561)	-	-	20,968,021
Unamortized bond discount & cost of issuance	-	3,044,409	683,931	64,315	-	-	4,102,605
Other noncurrent assets	-	-	16,420	-	-	-	16,420
Capital assets, net	<u>15,695,525</u>	<u>223,248,068</u>	<u>331,628,995</u>	<u>8,100,600</u>	<u>11,836,004</u>	-	<u>716,616,844</u>
Total noncurrent assets	<u>18,306,919</u>	<u>258,211,715</u>	<u>376,600,037</u>	<u>9,811,768</u>	<u>12,124,198</u>	-	<u>809,616,760</u>
Total assets	<u>\$ 29,874,109</u>	<u>\$ 338,138,519</u>	<u>\$ 477,554,703</u>	<u>\$ 14,469,684</u>	<u>\$ 14,352,089</u>	<u>\$ 1,368,243</u>	<u>\$ 1,067,430,264</u>
<b>LIABILITIES</b>							
Current liabilities							
Accounts payable and accrued liabilities	\$ 629,244	\$ 10,489,039	\$ 9,547,077	\$ 583,388	\$ 160,104	\$ (1,383,772)	\$ 25,128,266
Payable to component units	-	29,428	335,433	-	10,000	-	413,226
Accrued payroll	1,032,886	7,425,520	9,541,658	725,795	356,741	-	23,318,789
Deferred revenue	107,099	2,710,531	6,961,360	218,792	82,210	-	11,618,411
Deposits	151,804	1,050,843	3,042,331	78,254	192,094	(246,188)	5,737,728
Long-term liabilities--current portion							
Due to Component Units	-	1,520,910	374,000	-	-	-	2,075,726
Due to Others	670,277	2,679,070	5,970,241	241,248	177,942	-	13,794,243
Total current liabilities	<u>2,591,310</u>	<u>25,905,341</u>	<u>35,772,100</u>	<u>1,847,477</u>	<u>979,091</u>	<u>(1,629,960)</u>	<u>82,086,389</u>
Noncurrent liabilities							
Advances from Bank of ND	-	-	1,479,887	-	-	-	1,479,887
Other noncurrent liabilities	19,778	77,866	819,974	120,310	26,445	-	1,371,034
Long-term liabilities							
Due to Component Units	-	39,256,524	12,579,985	-	-	-	57,990,693
Due to Others	2,483,700	73,799,120	90,930,672	4,025,590	568,126	-	201,818,241
Total noncurrent liabilities	<u>2,503,478</u>	<u>113,133,510</u>	<u>105,810,518</u>	<u>4,145,900</u>	<u>594,571</u>	-	<u>262,659,855</u>
Total liabilities	<u>\$ 5,094,788</u>	<u>\$ 139,038,851</u>	<u>\$ 141,582,618</u>	<u>\$ 5,993,377</u>	<u>\$ 1,573,662</u>	<u>\$ (1,629,960)</u>	<u>\$ 344,746,244</u>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	\$ 13,351,944	\$ 124,296,760	\$ 231,771,376	\$ 4,272,481	\$ 11,249,273	\$ -	\$ 473,571,577
Restricted for:							
Nonexpendable:							
Scholarships and fellowships	-	369,753	11,364,104	446,202	59,024	-	14,287,950
Expendable:							
Scholarships and fellowships	-	181,269	4,057,231	150,813	32,092	-	4,702,979
Research	-	10,010,223	2,324,812	-	-	-	12,489,914
Institutional	1,130,932	1,755,204	1,619,076	499,866	(7,887)	2,998,203	9,706,674
Loans	3,453,786	7,101,820	27,186,136	751,790	320,093	-	45,422,791
Capital projects	-	546,843	-	-	-	-	665,584
Debt service	512,121	4,921,486	4,862,769	447,357	276,336	-	12,444,896
Other	-	-	-	36,450	-	-	67,955
Unrestricted	<u>6,330,538</u>	<u>49,916,310</u>	<u>52,786,581</u>	<u>1,871,348</u>	<u>849,496</u>	-	<u>149,323,700</u>
Total net assets	<u>\$ 24,779,321</u>	<u>\$ 199,099,668</u>	<u>\$ 335,972,085</u>	<u>\$ 8,476,307</u>	<u>\$ 12,778,427</u>	<u>\$ 2,998,203</u>	<u>\$ 722,684,020</u>

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**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	North Dakota University System Office	Bismarck State College	Dickinson State University	Lake Region State College	Mayville State University	Minot State University	Minot State University Bottineau
<b>OPERATING REVENUES</b>							
Student tuition and fees (net of scholarship allowances of \$39,521,212)	\$ 1,887,178	\$ 10,577,080	\$ 9,489,314	\$ 3,430,842	\$ 2,876,397	\$ 13,357,109	\$ 1,142,982
Federal grants and contracts	266,295	4,482,615	2,696,951	1,390,961	2,260,570	8,007,051	830,663
State and local grants and contracts	-	376,159	46,197	361,287	36,682	929,208	145,499
Nongovernmental grants and contracts	-	299,960	235,101	56,370	3,390	75,468	23,000
Sales and services of educational departments	-	2,527,093	1,469,728	332,294	723,319	1,007,316	107,887
Auxiliary enterprises (net of scholarship allowances of \$3,082,717; \$79,280,836 of revenues are pledged as security for revenue bonds)	-	3,040,911	3,488,549	1,145,348	1,613,650	2,305,196	882,186
Other	223,460	9,586	65,282	9,291	11,401	58,777	6,378
<b>Total operating revenues</b>	<b>\$ 2,376,933</b>	<b>\$ 21,313,404</b>	<b>\$ 17,491,122</b>	<b>\$ 6,726,393</b>	<b>\$ 7,525,409</b>	<b>\$ 25,740,125</b>	<b>\$ 3,138,595</b>
<b>OPERATING EXPENSES</b>							
Salaries and wages	\$ 2,747,409	\$ 18,011,197	\$ 15,012,357	\$ 6,431,020	\$ 7,677,740	\$ 26,922,083	\$ 3,484,076
Operating expenses	1,143,615	7,794,944	8,401,799	2,573,137	3,296,055	9,633,543	1,643,040
Data processing	15,056	511,701	469,008	311,756	127,432	204,974	83,403
Depreciation expense	1,069,246	1,136,324	1,124,579	474,695	718,272	2,356,434	188,507
Scholarships and fellowships	6,343,835	1,592,506	1,365,612	440,446	460,476	1,999,108	443,800
Cost of sales and services	-	1,749,749	835,247	539,407	645,252	-	248,369
<b>Total operating expenses</b>	<b>\$ 11,319,161</b>	<b>\$ 30,796,421</b>	<b>\$ 27,208,602</b>	<b>\$ 10,770,461</b>	<b>\$ 12,925,227</b>	<b>\$ 41,116,142</b>	<b>\$ 6,091,195</b>
<b>Operating income (loss)</b>	<b>\$ (8,942,228)</b>	<b>\$ (9,483,017)</b>	<b>\$ (9,717,480)</b>	<b>\$ (4,044,068)</b>	<b>\$ (5,399,818)</b>	<b>\$ (15,376,017)</b>	<b>\$ (2,952,600)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
State appropriations	\$ 19,534,036	\$ 9,795,400	\$ 8,383,225	\$ 3,260,000	\$ 5,011,399	\$ 15,047,561	\$ 2,393,272
Federal appropriations	-	-	-	-	-	-	-
Federal grants and contracts	169,181	-	-	-	-	-	-
Gifts	-	786,557	837,066	428,740	634,523	1,633,882	317,280
Investment income (net of investment expense of \$67,101)	3	319,312	371,973	37,860	111,741	613,456	41,589
Interest on capital asset-related debt	(426,048)	(568,202)	(99,489)	(69,898)	(227,458)	(311,948)	(17,849)
Gain (loss) on disposal of capital assets	-	-	(7,833)	-	(6,234)	555	-
Insurance proceeds	-	4,236	15,805	-	-	400	-
Tax revenues	-	-	-	-	183,530	-	-
General and special grant expenditures	(4,062,322)	-	-	-	-	-	-
Other nonoperating revenues (expenses)	630,196	(318,991)	87,308	3,474	(343,087)	46,076	-
<b>Net nonoperating revenues</b>	<b>\$ 15,845,046</b>	<b>\$ 10,018,312</b>	<b>\$ 9,588,055</b>	<b>\$ 3,660,176</b>	<b>\$ 5,364,414</b>	<b>\$ 17,029,982</b>	<b>\$ 2,734,292</b>
Income (loss) before capital grants, gifts, and transfers	\$ 6,902,818	\$ 535,295	\$ (129,425)	\$ (383,892)	\$ (35,404)	\$ 1,653,965	\$ (218,308)
Federal appropriations-capital assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State appropriations-capital assets	-	792,562	591,177	63,663	821,369	935,903	271,591
Transfers to Building Authority	(7,132,909)	-	-	-	-	-	-
Capital grants and gifts	350,000	46,350	2,168,573	-	122,135	-	6,000
<b>Increase (decrease) in net assets</b>	<b>\$ 119,909</b>	<b>\$ 1,374,207</b>	<b>\$ 2,630,325</b>	<b>\$ (320,229)</b>	<b>\$ 908,100</b>	<b>\$ 2,589,868</b>	<b>\$ 59,283</b>
<b>NET ASSETS</b>							
Net assets--beginning of year	2,764,012	22,736,477	28,723,911	6,193,866	7,530,309	58,071,209	5,198,762
Net assets--end of year	<b>\$ 2,883,921</b>	<b>\$ 24,110,684</b>	<b>\$ 31,354,236</b>	<b>\$ 5,873,637</b>	<b>\$ 8,438,409</b>	<b>\$ 60,661,077</b>	<b>\$ 5,258,045</b>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2008**

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**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - Continued**

	North Dakota State College of Science	North Dakota State University	University of North Dakota	Valley City State University	Williston State College	Eliminations	Total
<b>OPERATING REVENUES</b>							
Student tuition and fees (net of scholarship allowances of \$39,521,212)	\$ 8,507,801	\$ 71,990,835	96,532,462	\$ 3,462,872	\$ 1,553,016	\$ 1,368,836	\$ 226,176,724
Federal grants and contracts	3,194,576	64,208,796	67,638,700	1,413,143	1,237,791	(3,416,316)	154,211,796
State and local grants and contracts	689,153	5,357,838	5,043,326	95,809	318,777	(3,452,362)	9,947,573
Nongovernmental grants and contracts	2,000	5,517,994	17,512,651	50,901	9,950	-	23,786,785
Sales and services of educational departments	2,473,913	19,393,397	26,108,379	250,585	975,199	(940,194)	54,428,916
Auxiliary enterprises (net of scholarship allowances of \$3,082,717; \$79,280,836 of revenues are pledged as security for revenue bonds)	6,134,308	32,042,747	29,087,756	2,197,226	1,160,806	-	83,098,683
Other	127,710	320,383	449,064	15,268	7,151	-	1,303,751
Total operating revenues	<u>\$ 21,129,461</u>	<u>\$ 198,831,990</u>	<u>\$ 242,372,338</u>	<u>\$ 7,485,804</u>	<u>\$ 5,262,690</u>	<u>\$ (6,440,036)</u>	<u>\$ 552,954,228</u>
<b>OPERATING EXPENSES</b>							
Salaries and wages	\$ 19,962,228	\$ 184,531,201	\$ 202,388,431	\$ 9,645,261	\$ 5,105,073	\$ 359,628	\$ 502,277,704
Operating expenses	12,154,728	72,680,924	77,853,011	4,110,526	2,067,558	(1,953,649)	201,399,231
Data processing	658,173	8,314,698	6,353,741	311,087	80,113	-	17,441,142
Depreciation expense	1,833,790	13,416,863	17,900,832	764,930	567,615	-	41,552,087
Scholarships and fellowships	1,044,531	5,126,136	6,809,137	466,798	581,183	(280,925)	26,392,643
Cost of sales and services	2,364,568	8,795,229	16,926,898	400,009	644,504	-	33,149,232
Total operating expenses	<u>\$ 38,018,018</u>	<u>\$ 292,865,051</u>	<u>\$ 328,232,050</u>	<u>\$ 15,698,611</u>	<u>\$ 9,046,046</u>	<u>\$ (1,874,946)</u>	<u>\$ 822,212,039</u>
Operating income (loss)	<u>\$ (16,888,557)</u>	<u>\$ (94,033,061)</u>	<u>\$ (85,859,712)</u>	<u>\$ (8,212,807)</u>	<u>\$ (3,783,356)</u>	<u>\$ (4,565,090)</u>	<u>\$ (269,257,811)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
State appropriations	\$ 13,742,000	\$ 79,233,489	\$ 78,243,012	\$ 6,545,233	\$ 3,211,252	\$ (200,000)	\$ 244,199,879
Federal appropriations	-	7,587,352	-	-	-	-	7,587,352
Federal grants and contracts	-	143,154	35,372	-	-	-	347,707
Gifts	1,361,361	8,797,122	6,624,730	795,297	550,018	(6,204)	22,760,372
Investment income (net of investment expense of \$67,101)	425,111	3,264,524	2,319,472	156,082	126,584	-	7,787,707
Interest on capital asset-related debt	(144,025)	(5,753,860)	(5,034,227)	(222,652)	(4,122)	-	(12,879,778)
Gain (loss) on disposal of capital assets	344,193	864,054	(208,315)	300	13,027	-	999,747
Insurance proceeds	10,000	-	516,210	-	-	-	546,651
Tax revenues	-	259,118	1,899,034	-	-	-	2,341,682
General and special grant expenditures	-	-	-	-	-	3,575,000	(487,322)
Other nonoperating revenues (expenses)	466	299	477,024	588	(9,873)	-	573,480
Net nonoperating revenues	<u>\$ 15,739,106</u>	<u>\$ 94,395,252</u>	<u>\$ 84,872,312</u>	<u>\$ 7,274,848</u>	<u>\$ 3,886,886</u>	<u>\$ 3,368,796</u>	<u>\$ 273,777,477</u>
Income (loss) before capital grants, gifts, and transfers	<u>\$ (1,149,451)</u>	<u>\$ 362,191</u>	<u>\$ (987,400)</u>	<u>\$ (937,959)</u>	<u>\$ 103,530</u>	<u>\$ (1,196,294)</u>	<u>\$ 4,519,666</u>
Federal appropriations-capital assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State appropriations-capital assets	474,859	3,743,328	1,801,503	611,171	146,237	-	10,253,363
Transfers to Building Authority	-	-	-	-	-	-	(7,132,909)
Capital grants and gifts	1,433,714	2,077,994	4,400,707	949,102	1,037,377	-	12,591,952
Increase (decrease) in net assets	<u>\$ 759,122</u>	<u>\$ 6,183,513</u>	<u>\$ 5,214,810</u>	<u>\$ 622,314</u>	<u>\$ 1,287,144</u>	<u>\$ (1,196,294)</u>	<u>\$ 20,232,072</u>
<b>NET ASSETS</b>							
Net assets--beginning of year	<u>24,020,199</u>	<u>192,916,155</u>	<u>330,757,275</u>	<u>7,837,686</u>	<u>11,507,588</u>	<u>4,194,499</u>	<u>702,451,948</u>
Net assets--end of year	<u>\$ 24,779,321</u>	<u>\$ 199,099,668</u>	<u>\$ 335,972,085</u>	<u>\$ 8,460,000</u>	<u>\$ 12,794,732</u>	<u>\$ 2,998,205</u>	<u>\$ 722,684,020</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2008**

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**COMBINING STATEMENT OF CASH FLOWS**

	North Dakota University System Office	Bismarck State College	Dickinson State University	Lake Region State College	Mayville State University	Minot State University	Minot State University Bottineau
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Student tuition and fees	\$ 1,915,150	\$ 10,447,961	\$ 9,550,824	\$ 3,742,097	\$ 2,831,449	\$ 13,337,520	\$ 1,149,943
Grants and contracts	511,542	4,901,797	3,335,524	1,787,352	2,152,505	8,552,370	998,089
Payments to suppliers	(1,074,766)	(9,582,466)	(9,638,982)	(3,392,701)	(4,084,506)	(9,033,888)	(2,020,848)
Payments to employees	(2,672,689)	(17,729,633)	(15,096,993)	(6,405,006)	(7,608,712)	(26,726,266)	(3,420,960)
Payments for scholarships and fellowships	(6,343,835)	(1,592,506)	(1,365,612)	(440,446)	(460,476)	(1,999,108)	(443,800)
Loans issued to students	-	(160,594)	(160,167)	(103,910)	(95,728)	(607,693)	(65,856)
Collection of loans to students	-	110,324	156,570	60,518	88,275	433,567	54,491
Auxiliary enterprise charges	-	3,000,443	3,486,864	1,144,764	1,590,487	2,309,485	877,880
Sales and service of educational departments	-	2,581,555	1,642,147	328,790	630,199	793,934	55,455
Cash received/(paid) on deposits	-	(17,864)	33,389	(3,828)	7,819	3,004	(4,855)
Other receipts (payments)	223,460	(6,549)	32,980	3,013	(32,353)	125,299	(1,682)
Net cash provided (used) by operating activities	<u>\$ (7,441,138)</u>	<u>\$ (8,047,532)</u>	<u>\$ (8,023,456)</u>	<u>\$ (3,279,357)</u>	<u>\$ (4,981,041)</u>	<u>\$ (12,811,776)</u>	<u>\$ (2,822,143)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
State appropriations	\$ 19,014,230	\$ 9,795,400	\$ 8,383,225	\$ 3,260,000	\$ 5,011,399	\$ 15,047,561	\$ 2,414,647
Federal appropriations	-	-	-	-	-	-	-
Grants and gifts received for other than capital purposes	169,181	486,881	837,066	428,740	634,523	1,633,882	317,280
Grants given for other than capital purposes	(4,062,322)	-	-	-	-	-	-
Principal paid on advances from Bank of North Dakota	-	-	-	-	-	-	-
Agency fund cash increase/(decrease)	2,563	90,000	20,027	(16,351)	(95,732)	84,824	36,749
Tax revenues	-	-	-	-	183,530	-	-
Other nonoperating revenues (expenses)	630,195	(78,821)	87,311	3,476	170,220	30,167	(375)
Net cash flows provided by noncapital financing activities	<u>\$ 15,753,847</u>	<u>\$ 10,293,460</u>	<u>\$ 9,327,629</u>	<u>\$ 3,675,865</u>	<u>\$ 5,903,940</u>	<u>\$ 16,796,434</u>	<u>\$ 2,768,301</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Proceeds from issuance of debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers to Building Authority	(7,132,909)	-	-	-	-	-	-
Capital appropriations	-	357,999	610,454	63,663	708,024	917,951	264,598
Capital grants and gifts received	350,000	92,700	2,103,973	305	122,135	(110)	6,000
Proceeds from sale of capital assets	-	-	4,508	-	-	5,300	-
Purchases of capital assets	-	(4,341,681)	(578,713)	(215,994)	(936,267)	(1,687,245)	(288,681)
Insurance proceeds	-	4,236	15,805	-	-	400	-
Principal paid on capital debt and lease	(1,444,850)	(545,506)	(291,986)	(148,923)	(684,192)	(611,007)	(58,293)
Deposits with capital debt payment trustees	-	25,000	-	-	145,247	-	(572)
Interest paid on capital debt and lease	(470,300)	(566,229)	(99,977)	(69,898)	(227,983)	(308,751)	(17,849)
Net cash used by capital and related financing activities	<u>\$ (8,698,059)</u>	<u>\$ (4,973,481)</u>	<u>\$ 1,764,064</u>	<u>\$ (370,847)</u>	<u>\$ (873,036)</u>	<u>\$ (1,683,462)</u>	<u>\$ (94,797)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Proceeds from sales and maturities of investments	\$ -	\$ 2,500,000	\$ -	\$ -	\$ -	\$ 4,548,293	\$ 72
Interest on investments	3	345,853	379,044	37,855	111,739	727,826	42,049
Purchase of investments	-	(2,640,000)	(3,000,000)	-	-	(2,857,051)	-
Net cash provided by investing activities	<u>\$ 3</u>	<u>\$ 205,853</u>	<u>\$ (2,620,956)</u>	<u>\$ 37,855</u>	<u>\$ 111,739</u>	<u>\$ 2,419,068</u>	<u>\$ 42,121</u>
Net increase in cash	<u>\$ (385,347)</u>	<u>\$ (2,521,700)</u>	<u>\$ 447,281</u>	<u>\$ 63,516</u>	<u>\$ 161,602</u>	<u>\$ 4,720,264</u>	<u>\$ (106,518)</u>
CASH - BEGINNING OF YEAR	<u>538,724</u>	<u>7,471,213</u>	<u>2,733,006</u>	<u>3,070,392</u>	<u>1,481,569</u>	<u>9,490,569</u>	<u>766,882</u>
CASH - END OF YEAR	<u>\$ 153,377</u>	<u>\$ 4,949,513</u>	<u>\$ 3,180,287</u>	<u>\$ 3,133,908</u>	<u>\$ 1,643,171</u>	<u>\$ 14,210,833</u>	<u>\$ 660,364</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2008**

**COMBINING STATEMENT OF CASH FLOWS - Continued**

	<b>North Dakota State College of Science</b>	<b>North Dakota State University</b>	<b>University of North Dakota</b>	<b>Valley City State University</b>	<b>Williston State College</b>	<b>Eliminations</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Student tuition and fees							
Grants and contracts	\$ 8,622,423	\$ 71,391,181	\$ 95,629,033	\$ 3,574,978	\$ 1,580,930	\$ 256,433	\$ 224,029,922
Payments to suppliers	3,679,629	76,214,906	90,403,544	1,556,850	1,325,238	(6,868,678)	188,550,668
Payments to employees	(15,045,748)	(93,304,177)	(94,440,062)	(4,910,869)	(2,751,043)	2,475,825	(246,804,231)
Payments for scholarships and fellowships	(19,861,805)	(183,210,499)	(201,048,378)	(9,565,799)	(5,048,645)	(359,627)	(498,755,012)
Loans issued to students	(1,044,531)	(5,126,136)	(6,829,974)	(466,798)	(581,183)	280,925	(26,413,480)
Collection of loans to students	(452,589)	(1,302,211)	(4,726,774)	(143,065)	(91,201)	-	(7,909,788)
Auxiliary enterprise charges	443,444	1,048,327	2,839,594	105,481	68,545	-	5,409,136
Sales and service of educational departments	6,178,571	32,001,835	28,936,071	2,200,373	1,146,266	-	82,873,039
Cash received/(paid) on deposits	2,520,728	22,037,421	28,935,086	279,825	466,676	(940,194)	59,331,622
Other receipts (payments)	6,577	(25,249)	(697,877)	(3,591)	65,771	-	(636,704)
Net cash provided (used) by operating activities	161,949	274,815	(3,328,187)	8,896	5,643	-	(2,532,716)
	<b>\$ (14,791,352)</b>	<b>\$ (79,999,787)</b>	<b>\$ (64,327,924)</b>	<b>\$ (7,363,719)</b>	<b>\$ (3,813,003)</b>	<b>\$ (5,155,316)</b>	<b>\$ (222,857,544)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
State appropriations	\$ 13,587,991	\$ 70,950,943	\$ 78,243,012	\$ 6,294,015	\$ 3,211,252	\$ -	\$ 235,213,675
Federal appropriations	-	7,587,352	-	-	-	-	7,587,352
Grants and gifts received for other than capital purposes	1,361,361	10,131,581	6,871,230	795,297	550,018	(6,204)	24,210,836
Grants given for other than capital purposes	-	-	-	-	-	3,375,000	(687,322)
Principal paid on advances from Bank of North Dakota	-	-	(35,372)	-	-	-	(35,372)
Agency fund cash increase/(decrease)	(40,893)	178,781	(89,066)	(13,831)	-	-	157,071
Tax revenues	-	259,118	1,899,034	-	4,292	-	2,345,974
Other nonoperating revenues (expenses)	87,820	39,403	4,562,131	(26,127)	(30,880)	-	5,474,520
Net cash flows provided by noncapital financing activities	<b>\$ 14,996,279</b>	<b>\$ 89,147,178</b>	<b>\$ 91,450,969</b>	<b>\$ 7,049,354</b>	<b>\$ 3,734,682</b>	<b>\$ 3,368,796</b>	<b>\$ 274,266,734</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Proceeds from issuance of debt	\$ -	\$ 12,000,000	\$ -	\$ -	\$ -	\$ -	\$ 12,000,000
Transfers to Building Authority	-	1,502,752	-	-	-	-	(5,630,157)
Capital appropriations	1,984,009	3,660,394	1,676,796	1,565,304	146,237	-	11,955,429
Capital grants and gifts received	500	-	3,116,803	-	360,001	-	6,152,307
Proceeds from sale of capital assets	7,000	677,442	455,151	-	-	-	1,149,401
Purchases of capital assets	(856,424)	(31,312,515)	(27,746,954)	(1,243,685)	(644,954)	-	(69,853,113)
Insurance proceeds	10,000	150,000	501,994	-	-	-	682,435
Principal paid on capital debt and lease	(576,463)	(4,352,868)	(7,426,878)	-	(191,696)	-	(16,332,662)
Deposits with capital debt payment trustees	-	5,607,011	-	(215,884)	-	-	5,560,802
Interest paid on capital debt and lease	(147,026)	(5,552,206)	(4,901,984)	(222,652)	(3,968)	-	(12,588,823)
Net cash used by capital and related financing activities	<b>\$ 421,596</b>	<b>\$ (17,619,990)</b>	<b>\$ (34,325,072)</b>	<b>\$ (116,917)</b>	<b>\$ (334,380)</b>	<b>\$ -</b>	<b>\$ (66,904,381)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Proceeds from sales and maturities of investments	\$ 38,521	\$ 10,880,934	\$ 46,183,272	\$ 339,016	\$ -	\$ -	\$ 64,490,108
Interest on investments	425,111	3,387,278	4,005,407	193,404	127,024	-	9,782,593
Purchase of investments	-	(7,479,885)	(36,469,641)	(202,035)	-	-	(52,648,612)
Net cash provided by investing activities	<b>\$ 463,632</b>	<b>\$ 6,788,327</b>	<b>\$ 13,719,038</b>	<b>\$ 330,385</b>	<b>\$ 127,024</b>	<b>\$ -</b>	<b>\$ 21,624,089</b>
Net increase in cash	<b>\$ 1,090,155</b>	<b>\$ (1,684,272)</b>	<b>\$ 6,517,011</b>	<b>\$ (100,897)</b>	<b>\$ (285,677)</b>	<b>\$ (1,786,520)</b>	<b>\$ 6,128,898</b>
<b>CASH - BEGINNING OF YEAR</b>	<b>\$ 7,890,078</b>	<b>\$ 19,454,954</b>	<b>\$ 12,014,935</b>	<b>\$ 3,852,681</b>	<b>\$ 1,165,564</b>	<b>\$ -</b>	<b>\$ 69,930,567</b>
<b>CASH - END OF YEAR</b>	<b>\$ 8,980,233</b>	<b>\$ 17,770,682</b>	<b>\$ 18,531,946</b>	<b>\$ 3,751,784</b>	<b>\$ 879,887</b>	<b>\$ (1,786,520)</b>	<b>\$ 76,059,465</b>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2008**

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**COMBINING STATEMENT OF CASH FLOWS - Continued**

North Dakota University System Office	Bismarck State College	Dickinson State University	Lake Region State College	Mayville State University	Minot State University	Minot State University Bottineau
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**RECONCILIATION OF NET OPERATING  
REVENUES (EXPENSES) TO  
NET CASH PROVIDED (USED) BY  
OPERATING ACTIVITIES**

Operating income (loss)	\$ (8,942,228)	\$ (9,483,017)	\$ (9,717,480)	\$ (4,044,118)	\$ (5,399,814)	\$ (15,376,017)	\$ (2,952,601)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities							
Depreciation expense	1,069,246	1,136,324	1,124,579	474,695	718,272	2,356,434	188,507
Change in assets and liabilities							
Accounts receivable adjusted for interest receivable	27,972	(129,667)	216,944	227,916	(82,700)	(208,656)	(51,977)
Grant & contract receivables	245,247	(256,937)	357,275	(21,266)	(148,137)	(459,357)	(1,073)
Inventories	-	(78,364)	79,611	(2,802)	2,900	-	(54,869)
Notes receivable	-	(10,171)	22,976	(20,172)	22,333	176,779	(1,316)
Other assets	16,280	(14,149)	(30,350)	(6,281)	(43,754)	66,522	(8,059)
Accounts payable and accrued liabilities adjusted for interest payable	67,625	484,465	(25,764)	31,915	(113,684)	437,372	(1,216)
Accrued payroll	(11,000)	195,904	(37,788)	1,840	32,079	197,942	51,338
Compensated absences	85,720	85,660	(46,848)	24,174	36,949	(2,125)	11,778
Deferred revenue	-	40,284		58,567	(13,300)	(3,674)	2,200
Deposits	-	(17,864)	33,389	(3,825)	7,815	3,004	(4,855)
Net cash provided (used) by operating activities	<u>\$ (7,441,138)</u>	<u>\$ (8,047,532)</u>	<u>\$ (8,023,456)</u>	<u>\$ (3,279,357)</u>	<u>\$ (4,981,041)</u>	<u>\$ (12,811,776)</u>	<u>\$ (2,822,143)</u>

**SUPPLEMENTAL DISCLOSURE ON NON  
CASH TRANSACTIONS**

Assets acquired through capital lease	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,633	\$ -
Assets acquired through special assessment	-	-	-	-	-	-	-
Expenses paid by capital lease/special assessments	-	319,234	-	-	513,307	-	-
Gifts of capital assets	-	(46,350)	64,600	-	-	-	-
Net increases (decrease) in value of investments	-	-	-	-	-	(137,444)	-
Total non-cash transactions	<u>\$ -</u>	<u>\$ 272,884</u>	<u>\$ 64,600</u>	<u>\$ -</u>	<u>\$ 513,307</u>	<u>\$ (133,811)</u>	<u>\$ -</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2008**

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**COMBINING STATEMENT OF CASH FLOWS - Continued**

	<b>North Dakota State College of Science</b>	<b>North Dakota State University</b>	<b>University of North Dakota</b>	<b>Valley City State University</b>	<b>Williston State College</b>	<b>Eliminations</b>	<b>Total</b>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>							
Operating income (loss)							
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities							
Depreciation expense	1,833,790	13,416,863	17,900,832	764,930	567,615	-	41,552,087
Change in assets and liabilities							
Accounts receivable adjusted for interest receivable	266,325	(544,732)	(545,813)	(4,876)	(485,014)	(831,378)	(2,145,656)
Grant & contract receivables	(206,100)	1,130,278	208,867	(3,003)	(241,280)	205,715	810,229
Inventories	(38,720)	(373,587)	(37,359)	4,934	(49,971)	-	(548,227)
Notes receivable	21,905	(153,842)	685,468	(17,972)	(14,370)	-	711,618
Other assets	34,239	24,026	(3,777,251)	(4,297)	(1,508)	-	(3,744,582)
Accounts payable and accrued liabilities adjusted for interest payable	66,192	(883,819)	4,898,024	(139,326)	74,170	(681,727)	4,214,227
Accrued payroll	65,016	622,992	898,239	50,629	30,169	-	2,097,360
Compensated absences	35,407	697,710	441,814	28,833	26,259	-	1,425,331
Deferred revenue	12,574	122,635	1,556,844	156,522	14,819	-	1,947,471
Deposits	6,577	(25,249)	(697,877)	(3,591)	65,771	717,164	80,459
Net cash provided (used) by operating activities	<b>\$ (14,791,352)</b>	<b>\$ (79,999,787)</b>	<b>\$ (64,327,924)</b>	<b>\$ (7,363,719)</b>	<b>\$ (3,813,003)</b>	<b>\$ (5,155,316)</b>	<b>\$ (222,857,544)</b>
<b>SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS</b>							
Assets acquired through capital lease	\$ -	\$ 11,571,273	\$ 4,018,938	\$ -	\$ -	\$ -	\$ 15,593,844
Assets acquired through special assessment	-	801,077	-	5,084	-	-	806,161
Expenses paid by capital lease/special assessments	116,559	-	4,085,112	-	10,397	-	5,044,609
Gifts of capital assets	7,000	145,869	1,307,089	-	1,037,377	-	2,515,585
-	(45,492)	(2,155,004)	-	-	-	-	(2,337,940)
Total non-cash transactions	<b>\$ 123,559</b>	<b>\$ 12,472,727</b>	<b>\$ 7,256,135</b>	<b>\$ 5,084</b>	<b>\$ 1,047,774</b>	<b>\$ -</b>	<b>\$ 21,622,259</b>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2008**

**Statement of Net Assets -- Non-major Component Units**

	<b>Lake Region Community College Foundation</b>	<b>MaSU Alumni Foundation</b>	<b>MiSU-B and Institute of Forestry Development Foundation</b>	<b>NDSCS Foundation</b>	<b>NDSU Research Foundation</b>	<b>VCSU Foundation</b>	<b>WSC Foundation</b>	<b>Total Non-major Component Units</b>
<b>ASSETS</b>								
Current assets								
Cash and cash equivalents	\$ -	\$ -	\$ 46,999	\$ 2,419,674	\$ 245,735	\$ 1,196,546	\$ 1,989,061	\$ 5,898,015
Accounts receivable, net	15,805	38,263	-	-	-	120,983	171,805	346,856
Receivable from primary institution							10,000	10,000
Other assets	-	89,573	-	-	7,579	6,107	2,080	105,339
Total current assets	15,805	127,836	46,999	2,419,674	253,314	1,323,636	2,172,946	6,360,210
Noncurrent assets								
Restricted cash and cash equivalents	-	131,983	-	-	1,249,685	-	-	1,381,668
Restricted investments	-	-	-	-	-	-	4,969,023	4,969,023
Endowment investments	3,861,366	2,713,442	1,708,866	6,640,943	3,315,638	4,404,196	2,927,807	25,572,258
Other noncurrent assets	-	55,261	-	-	-	133,187	44,156	232,604
Capital assets, net	-	90,921	-	199,112	9,234	1,049	251,230	551,546
Total noncurrent assets	3,861,366	2,991,607	1,708,866	6,840,055	4,574,557	4,538,432	8,192,216	32,707,099
Total assets	\$ 3,877,171	\$ 3,119,443	\$ 1,755,865	\$ 9,259,729	\$ 4,827,871	\$ 5,862,068	\$ 10,365,162	\$ 39,067,309
<b>LIABILITIES</b>								
Current liabilities								
Accounts payable and accrued liabilities	\$ -	\$ 14,626	\$ -	\$ 10,326	\$ 334	\$ 9,829	\$ 39,090	\$ 74,205
Payable to primary institution	-	10,864	-	-	1,105,973	25,459	298,000	1,440,296
Deposits	-	-	-	350	-	-	-	350
Long-term liabilities--current portion								
Due to Others	-	28,037	-	35,250	20,000	-	-	83,287
Total current liabilities	-	53,527	-	45,926	1,126,307	35,288	337,090	1,598,138
Noncurrent liabilities								
Other noncurrent liabilities	-	-	-	-	-	45,879	13,191	59,070
Long-term liabilities								
Due to Others	-	59,815	-	12,000	40,000	-	-	111,815
Total noncurrent liabilities	-	59,815	-	12,000	40,000	45,879	13,191	170,885
Total liabilities	\$ -	\$ 113,342	\$ -	\$ 57,926	\$ 1,166,307	\$ 81,167	\$ 350,281	\$ 1,769,023
<b>NET ASSETS</b>								
Invested in capital assets, net of related debt	\$ -	\$ 90,921	\$ -	\$ 151,862	\$ 9,234	\$ 1,049	\$ 251,230	\$ 504,296
Restricted for:								
Nonexpendable:								
Other (CU)	2,514,869	2,330,032	1,646,164	8,530,740	-	3,585,441	5,204,366	23,811,612
Expendable:								
Other	964,735	949,253	56,385	-	-	2,191,287	2,870,579	7,032,239
Unrestricted	397,567	(364,105)	53,316	519,201	3,652,330	3,124	1,688,706	5,950,139
Total net assets	\$ 3,877,171	\$ 3,006,101	\$ 1,755,865	\$ 9,201,803	\$ 3,661,564	\$ 5,780,901	\$ 10,014,881	\$ 37,298,286

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2008**

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**Statement of Revenues, Expenses and Changes in Net Assets -- Non-major Component Units**

	<b>Lake Region Community College Foundation</b>	<b>MaSU Alumni Foundation</b>	<b>MiSU-B and Institute of Forestry Development Foundation</b>	<b>NDSCS Foundation</b>	<b>NDSU Research Foundation</b>	<b>VCSU Foundation</b>	<b>WSC Foundation</b>	<b>Total Non-major Component Units</b>
<b>OPERATING REVENUES</b>								
Gifts & Contributions (CU)	\$ 259,092	\$ 239,223	\$ 130,005	\$ 1,125,707	\$ 15,133	\$ 563,446	\$ 102,293	\$ 2,434,899
Event income (CU)	-	670,071	-	-	-	-	-	670,071
Rental income (CU)	-	-	-	28,290	-	-	42,731	71,021
Other	91,353	102,896	65,180	122,171	1,487,811	32,390	4,037,199	5,939,000
Total operating revenues	<u>\$ 350,445</u>	<u>\$ 1,012,190</u>	<u>\$ 195,185</u>	<u>\$ 1,276,168</u>	<u>\$ 1,502,944</u>	<u>\$ 595,836</u>	<u>\$ 4,182,223</u>	<u>\$ 9,114,991</u>
<b>OPERATING EXPENSES</b>								
Salaries and wages	\$ -	\$ 85,077	\$ 17,236	\$ 165,576	\$ 157,201	\$ 58,758	\$ 364,364	\$ 848,212
Operating expenses	51,510	25,492	32,823	635,564	2,357	312,263	3,404,486	4,464,495
Depreciation expense	-	12,660	-	550	984,627	515	22,797	1,021,149
Total operating expenses	<u>\$ 51,510</u>	<u>\$ 123,229</u>	<u>\$ 50,059</u>	<u>\$ 801,690</u>	<u>\$ 1,144,185</u>	<u>\$ 371,536</u>	<u>\$ 3,791,647</u>	<u>\$ 6,333,856</u>
Operating income (loss)	\$ 298,935	\$ 888,961	\$ 145,126	\$ 474,478	\$ 358,759	\$ 224,300	\$ 390,576	\$ 2,781,135
<b>NONOPERATING REVENUES (EXPENSES)</b>								
Investment income	\$ (83,882)	\$ (328,614)	\$ 91,355	\$ (340,123)	\$ (306,444)	\$ (377,921)	\$ 308,839	\$ (1,036,790)
Payments to or for the institution (CU)	(295,124)	(901,652)	(235,159)	(419,588)	(1,691,342)	(621,623)	(460,810)	(4,625,298)
Other nonoperating revenues (expenses)	-	-	-	(59,965)	-	-	(303,460)	(363,425)
Net nonoperating revenues (expenses)	<u>\$ (379,006)</u>	<u>\$ (1,230,266)</u>	<u>\$ (143,804)</u>	<u>\$ (819,676)</u>	<u>\$ (1,997,786)</u>	<u>\$ (999,544)</u>	<u>\$ (455,431)</u>	<u>\$ (6,025,513)</u>
Income (loss) before capital grants, gifts, and transfers	<u>\$ (80,071)</u>	<u>\$ (341,305)</u>	<u>\$ 1,322</u>	<u>\$ (345,198)</u>	<u>\$ (1,639,027)</u>	<u>\$ (775,244)</u>	<u>\$ (64,855)</u>	<u>\$ (3,244,378)</u>
Additions to permanent endowments	86,598	196,226	32,468	-	-	1,010,189	122,000	1,447,481
Increase in net assets	<u>\$ 6,527</u>	<u>\$ (145,079)</u>	<u>\$ 33,790</u>	<u>\$ (345,198)</u>	<u>\$ (1,639,027)</u>	<u>\$ 234,945</u>	<u>\$ 57,145</u>	<u>\$ (1,796,897)</u>
<b>NET ASSETS</b>								
Net assets--beginning of year	<u>3,870,644</u>	<u>3,151,180</u>	<u>1,722,075</u>	<u>9,547,001</u>	<u>5,300,591</u>	<u>5,545,956</u>	<u>9,957,736</u>	<u>39,095,183</u>
Net assets--end of year	<u>\$ 3,877,171</u>	<u>\$ 3,006,101</u>	<u>\$ 1,755,865</u>	<u>\$ 9,201,803</u>	<u>\$ 3,661,564</u>	<u>\$ 5,780,901</u>	<u>\$ 10,014,881</u>	<u>\$ 37,298,286</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2008**

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**SCHEDULE OF BONDS PAYABLE - Primary Institution**

<b>Issue</b>	<b>Original Balance</b>	<b>Interest Rate</b>	<b>Installments</b>	<b>Balance Outstanding</b>
<b>Bismarck State College</b>				
2000 Facilities Improvement, consisting of revenue bonds through the year 2009, collateralized by the student service and facility fee, interest rate fixed.	\$ 250,000	5.25-5.75%	\$25,000 to \$30,000	30,000
2005 Housing & Auxiliary Facilities, due through 2030, collateralized by net revenues and income of housing services, interest rate fixed.	\$ 4,400,000	3.4-5.35%	\$90,000 to \$710,000	<u>4,120,000</u>
Total BSC				<u>\$ 4,150,000</u>
<b>Dickinson State University</b>				
2006 Student Union Improvement Revenue Refunding Bonds, due through 2020, collateralized by student union fee revenue and bookstore net revenue, interest rate fixed.	\$ 775,000	4.0%-5.0%	\$50,000 to \$310,000	<u>\$ 680,000</u>
Total DSU				<u>\$ 680,000</u>
<b>Lake Region State College</b>				
2004 Housing & Auxiliary Facilities Improvement Revenue Bonds due through the year 2017, collateralized by auxiliary services net revenues, facility usage fees and HUD interest subsidy, interest rate fixed.	\$ 1,050,000	4.0-5.125%	\$55,000 to \$100,000	<u>\$ 810,000</u>
Total LRSC				<u>\$ 810,000</u>
<b>Mayville State University</b>				
1998 Refunding Revenue Bonds due through 2009, collateralized by the net revenue from the Student Center, interest rate fixed.	\$ 695,000	4.8%	\$60,000 to \$75,000	\$ 75,000
2003 Facilities Revenue Bonds, due through the year 2018, collateralized by the student fees, sales tax and earnings, interest rate fixed.	\$ 2,800,000	5.38%	\$115,358	<u>2,405,081</u>
Total MaSU				<u>\$ 2,480,081</u>
<b>Minot State University</b>				
1993 Building Authority, consisting of revenue bonds due through the year 2010, with payments made every other year.	\$ 1,582,000	None	\$197,750	\$ 197,750
2001 Building Authority, consisting of revenue bonds due through the year 2013, interest rate fixed.	\$ 2,299,000	None	\$208,625 to \$315,000	1,043,125
2003 Refunding Revenue Bonds due through 2013, collateralized by net revenues from auxiliary housing and bookstore, fixed rate.	\$ 1,920,000	3.0-4.5%	\$95,000 to \$365,000	680,000
2006 Student Services Facilities Revenue Bonds due through 2030, collateralized by net revenues from auxiliary housing, interest rate fixed.	\$ 5,000,000	4.0-5.25%	\$125,000 to \$290,000	<u>4,875,000</u>
Total MiSU				<u>\$ 6,795,875</u>
<b>Minot State University - Bottineau</b>				
1971 Milligan Hall Revenue Bonds, due through 2012, collateralized by net revenues and income of Milligan Hall, fixed rate.	\$ 390,000	6.25-6.95%	\$15,000 to \$29,000	<u>\$ 104,000</u>
Total MiSU - Bottineau				<u>\$ 104,000</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2008**

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**SCHEDULE OF BONDS PAYABLE - Primary Institution (continued)**

<b>Issue</b>	<b>Original Balance</b>	<b>Interest Rate</b>	<b>Installments</b>	<b>Balance Outstanding</b>
<b>North Dakota State College of Science</b>				
1993 Building Authority, consisting of revenue bonds due through the year 2009, with payments made every other year,	\$ 250,000	None	\$31,250	\$ 31,250
2001 Housing Facilities Revenue Bonds, due through 2016, fixed rate collateralized by net housing and auxiliary facilities pledged revenues.	\$ 2,785,000	5.0-5.5%	\$95,000 to \$270,000	<u>1,305,000</u>
Total NDSCS				<u>\$ 1,336,250</u>
<b>North Dakota State University</b>				
IACC Building Match, consisting of revenue bonds due through year 2009, with payments made every other year.	\$ 25,830,000	None	\$55,375	\$ 55,375
1999 Student Health & Wellness Center Revenue Bonds, due through 2028, collateralized by net revenues and income of auxiliary services, debt service reserve and repair and replacement reserve accounts, interest rate fixed	\$ 3,500,000	5.0-5.6%	\$60,000 to \$235,000	80,000
2000 Research & Tech Park (MIDA Bonds), consisting of revenue bonds due the year 2022, interest rate fixed.	\$ 6,500,000	5.375-5.6%	\$195,000 to \$515,000	815,000
2002 Research & Tech Park (MIDA Bonds), consisting of revenue bonds due the year 2032, interest rate fixed.	\$ 20,450,000	3.0-5.0%	\$145,000 to \$1,310,000	1,945,000
2002 Residence Hall Revenue Bonds due through 2029, collateralized by net revenues and income of housing and auxiliary system revenues and repair and replacement reserve accounts, interest rate fixed.	\$ 7,600,000	5.0-5.6%	\$135,000 to \$480,000	6,875,000
2002 Minard Hall Revenue Bonds through 2032, collateralized by net revenues of housing and auxiliary services, fixed rate.	\$ 3,000,000	2.1-5.0%	\$50,000 to \$180,000	2,635,000
2003 Refunding Revenue Bonds due through 2012, collateralized by net revenues of housing and auxiliary services, fixed rate.	\$ 5,990,000	1.7-3.95%	\$600,000 to \$750,000	2,850,000
2004 Housing & Auxiliary Facilities Revenue Bonds through 2034, collateralized by net revenues of housing and auxiliary services, interest rate fixed.	\$ 10,350,000	3.0-5.0%	\$125,000 to \$630,000	9,625,000
2005 Housing & Auxiliary Facilities Revenue Bonds, due through 2035, collateralized by net revenues of housing and auxiliary system, interest rate fixed.	\$ 18,700,000	4.25-5.0%	\$1,200,000	18,700,000
2006A Housing & Auxiliary Facilities Revenue Bonds, due through 2036, collateralized by net revenues of housing and auxiliary system, interest rate fixed.	\$ 9,990,000	4.25-5.0%	\$630,000	9,665,000
2006B Housing & Auxiliary Facilities Revenue Bonds, due through 2029, collateralized by net revenues of housing and auxiliary system, interest rate fixed.	\$ 2,845,000	4.25-5.0%	\$225,000	2,810,000
2007B Research & Tech Park Refunding callable Revenue Bonds Maturity June 30 2023, collateralized by lease revenue, fixed rate.	\$ 18,100,000	4.0-6.5%	\$805,000 to \$1,330,000	17,860,000
2007A Research & Tech Park Refunding callable Revenue Bonds Maturity June 30 2022, collateralized by lease revenue, fixed rate	\$ 4,735,000	4.0-4.125%	\$220,000 to \$510,000	4,675,000
2007 Housing & Auxiliaries Facilities Revenue Bonds, fixed rate Maturity 2037, collateralized by Auxiliary revenue.	\$ 12,000,000	4.5-5.0%	\$735,237 to \$791,897	<u>11,900,000</u>
Total NDSU				<u>\$ 90,490,375</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
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**SCHEDULE OF BONDS PAYABLE - Primary Institution (continued)**

<b>Issue</b>	<b>Original Balance</b>	<b>Interest Rate</b>	<b>Installments</b>	<b>Balance Outstanding</b>
<b>University of North Dakota</b>				
1993 Building Authority Revenue Bonds due through 2010, with payments made every other year.	\$ 225,000	None	\$28,125	\$ 28,125
1998A Housing and Refunding Revenue Bonds due through 2021, collateralized by net housing & auxiliary facilities system, debt service grants, and bond indenture earnings, fixed rate.	\$ 22,560,000	3.8-4.8%	\$1,375,000 to \$2,130,000	11,415,000
2002 Memorial Union Refunding Revenue Bonds due through 2021, collateralized by net housing and auxiliary facilities system, debt service grants, & bond indenture earnings, fixed rate.	\$ 6,710,000	3-5%	\$235,000 to \$550,000	4,400,000
2004 Housing & Auxiliary Facilities Revenue Bonds due through 2034, collateralized by net housing and auxiliary facilities system, debt service grants, & bond indenture earnings, fixed rate..	\$ 19,645,000	1-5%	\$30,000 to \$1,180,000	18,410,000
2006 Housing & Auxiliary Facilities Revenue Bonds due through 2036, collateralized by net housing and auxiliary facilities system, debt service grants, & bond indenture earnings, fixed rate.	\$ 40,050,000	3.5-5%	\$85,000 to \$2,875,000	<u>39,950,000</u>
Total UND				<u>\$ 74,203,125</u>
<b>Valley City State University</b>				
1971 Snoeyenbos Hall Revenue Bonds, due through 2011, collateralized by rentals, charges and other income from the operation of Snoeyenbos Hal, interest rate fixed.	\$ 750,000	7.2-7.25%	\$30,000 to \$55,000	\$ 195,000
2003 Housing & Auxiliary Facilities Revenue Bonds due through 2033, collateralized by net housing and auxiliary facilities system, interest rate fixed.	\$ 3,300,000	5.6783%	\$50,000 to \$225,000	<u>3,095,000</u>
Total VCSU				<u>\$ 3,290,000</u>
<b>Williston State College</b>				
1979 Student Housing Revenue Bonds, due through 2019, collateralized by net revenues and income from Nelson Hall and apartments, interest rate fixed.	\$ 546,000	3.0%	\$1,000 to \$20,000	\$ 146,000
2001 Health & Wellness Center Revenue Bonds due through 2011, collateralized by auxiliary revenues, fixed rate..	\$ 1,500,000	None	\$150,000	<u>450,000</u>
Total WSC				<u>\$ 596,000</u>
<b>North Dakota University System</b>				
2003 ConnectND Project Revenue Bonds, Series C, issued by North Dakota Building Authority (\$20,000,000 - NDUS owns 71%), due through the year 2014 collateralized by student fees, fixed rate.	\$ 14,200,000	4.28%	\$1,890,000 to \$2,615,000	<u>\$ 10,021,650</u>
Total NDUS				<u>\$ 10,021,650</u>
Total Bonds Payable	<u>\$ 283,272,000</u>			<u>\$ 194,957,356</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2008**

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**Financial Information for Revenue Producing Buildings (Unaudited)**  
(as Required by ND Century Code 15-55-20)

	<b>Bismarck State College</b>	<b>Dickinson State University</b>	<b>Lake Region State College</b>	<b>Mayville State University</b>	<b>Minot State University</b>	<b>Minot State University Bottineau</b>
Operating Revenues	\$ 3,350,835	\$ 2,869,329	\$ 1,295,697	\$ 1,242,782	\$ 3,355,871	\$ 387,340
Operating Expenses	3,029,484	2,476,124	1,307,852	1,287,299	3,693,920	331,081
Net Operating Revenues	\$ 321,351	\$ 393,205	\$ (12,155)	\$ (44,517)	\$ (38,049)	\$ 56,259
Pledged Fees	16,317	104,878	86,406	109,579		-
Investment Income	104,238		15,176	4,375	44,638	-
Debt Service Grants	12,218		23,170			-
Capitalized Interest						
Net Revenue Available for Debt Retirement	\$ 454,124	\$ 498,083	\$ 112,597	\$ 69,437	\$ (293,411)	\$ 56,259
Current year Debt Service						
Principal	\$ 185,000	\$ 50,000	\$ 65,000	\$ 75,000	\$ 428,625	\$ 23,000
Interest	218,165	33,875	39,411	2,758	276,197	6,383
Total Debt Service	\$ 403,165	\$ 83,875	\$ 104,411	\$ 77,758	\$ 704,822	\$ 29,383

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2008**

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**Financial Information for Revenue Producing Buildings (Unaudited) - Continued**  
(as Required by ND Century Code 15-55-20)

	<b>North Dakota State College of Science</b>	<b>North Dakota State University</b>	<b>University of North Dakota</b>	<b>Valley City State University</b>	<b>Williston State College</b>	<b>Total</b>
Operating Revenues	\$ 8,035,546	\$ 38,102,002	\$ 34,149,224	\$ 2,237,369	\$ 193,207	\$ 95,219,202
Operating Expenses	7,761,795	33,344,547	29,799,602	1,959,904	158,989	85,150,597
Net Operating Revenues	<u>\$ 273,751</u>	<u>\$ 4,757,455</u>	<u>\$ 4,349,622</u>	<u>\$ 277,465</u>	<u>\$ 34,218</u>	<u>\$ 10,068,605</u>
Pledged Fees	94,842	3,925,028	2,489,932	-		6,826,982
Investment Income	24,285	257,971	264,767	24,335		739,785
Debt Service Grants	83,624	24,408	32,808	23,714		199,942
Capitalized Interest			977,773			977,773
Net Revenue Available for Debt Retirement	<u><u>\$ 476,502</u></u>	<u><u>\$ 8,964,862</u></u>	<u><u>\$ 8,114,902</u></u>	<u><u>\$ 325,514</u></u>	<u><u>\$ 34,218</u></u>	<u><u>\$ 18,813,087</u></u>
Current year Debt Service			-			
Principal	\$ 255,000	\$ 1,435,000	\$ 2,650,000	\$ 95,000	\$ 20,000	\$ 5,281,625
Interest	67,540	2,867,774	3,451,199	187,391	4,698	7,155,391
Total Debt Service	<u><u>\$ 322,540</u></u>	<u><u>\$ 4,302,774</u></u>	<u><u>\$ 6,101,199</u></u>	<u><u>\$ 282,391</u></u>	<u><u>\$ 24,698</u></u>	<u><u>\$ 12,437,016</u></u>